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2015

IDEMITSU Group

IDEIMITSU REPORT

Realizing a Sustainable Society



Who We Are

Idemitsu Kosan Co., Ltd. forms the core of the Idemitsu Group, which currently operates on a global level through three business segments: core businesses, including fuel oil, basic chemicals and renewable energy; resource businesses, including oil exploration, coal, uranium and geothermal power; and functional materials businesses, including lubricants, performance chemicals, electronic materials and agricultural biotechnology.

Founding Spirit

Respect for Human Beings

Great Family-like System

Independence and Self-Governing

Do Not Be a Slave of Money

From Producers to Consumers

Sazo Idemitsu founded Idemitsu in 1911 in the town of Moji in Kita Kyushu City, Fukuoka Prefecture. His business philosophy is summarized as "respect for human beings," and he spent his entire life working to put it into practice. The Company's founding spirit is laid out in the five principles listed to the left. The founding spirit has been passed down through the generations and the Idemitsu Group will forever remain true to this legacy.



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Environment, Society and Governance (ESG) information, social contribution activities and details of each business initiative can be found on our website.



<http://www.idemitsu.com/environment/index.html>

This mark denotes performance data in this report that have undergone an independent practitioner's assurance by Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd. (Deloitte-TECO).

Our Management Philosophy

Sazo Idemitsu's words of wisdom were recently collectively summarized as the Principles of Management, Management Policies and Action Guidelines and serve as the management philosophy of the Idemitsu Group. Remaining true to the Principles of Management, we seek to fulfill stakeholders' commitments as depicted in the Management Policies, with employees unfailingly performing their respective roles in accordance with the Action Guidelines.

Principles of Management

Since its establishment, Idemitsu has been practicing the concept of "respect for human beings" in the conduct of business, and has sought to meet the high expectations of society and to earn its trust. In order to realize this ideal, the Company strives to do the following:

- To play a beneficial role in society by creating an environment where people trust each other and work together to realize through business the tremendous potential of "human beings,"
- To ensure that each employee develops into a reliable person and is respected in society, while upholding our vision, high ideals and engaging in mutual improvement through amicable competition, and
- To attach great importance to our promises to customers and seek to be worthy of the trust vested in us by unfailingly fulfilling those promises.

Management Policies

● Creation and provision of new value to customers

We provide products, technologies and services that give customers a strong feeling of assurance, greater vitality and absolute satisfaction, as we strive to create new value.

● Contribution to society and the environment

We make safety the cornerstone of business and strive to preserve and improve the natural environment. We also contribute to communities, culture and society.

● Assured returns to shareholders

We fulfill our corporate social responsibilities, strive for sound, sustainable growth and endeavor to generate stable returns for shareholders.

● Cooperation with partners

We secure the confidence, greater vitality and absolute satisfaction of our customers through cooperation with the retail outlets of service stations and others involved in our businesses, and aim to share the results as well as the success.

● Pursuit of employees' growth and self-realization

We create a work environment in which each employee can pursue his or her own growth and self-realization. We also make every effort to ensure that each employee is respected.

Action Guidelines

● Customers first

Consider how customer satisfaction can be attained and act accordingly.

● Sense of ethics

Maintain high ethical principles and act sincerely and fairly.

● Accepting challenges

Exercise originality and ingenuity through flexible views and ideas, and consistently meet the challenge of high-speed innovation.

● Consensus and cooperation

Devote effort to thorough discussion and work as one to implement conclusions.

● Autonomy

Accomplish assigned tasks with responsibility and pride.

● Broad-mindedness and employee development

Strive to create a broad-minded corporate culture for mutual growth.

● Harmony with communities

Contribute to the development of local communities as a good corporate citizen.

Message from the President



Photography by Yoshihiro Nishioka

I. Tackling Major Issues Head-On and Reshaping Idemitsu

Under article 50 of the Industrial Competitiveness Enhancement Act, in 2014 a market survey was conducted to assess Japan's petroleum and petrochemical industry. The intention of the Act is to encourage businesses to rebuild faltering or newly establish globally competitive operational foundations to counter the structural decline in domestic demand. We know that realizing a solid earnings base is key to ensuring the stable supply of energy—our self-proclaimed duty—and therefore, after serious

consideration, have determined how we will work to fulfill this duty. We are presently working to reshape Idemitsu through comprehensive reforms in our business structure. Having already revised our crude oil processing function at our refineries in Japan, we are to date outpacing our competition in the pace of said reform. We are also actively working on various growth strategies. Idemitsu will continue to hold true to its principles and help improve Japan's energy security.

1. Our Vision

(1) Strengthening Core Businesses in Japan (Fuel Oil, Petrochemicals)

1. Securing the Supply Chain, Beginning with Crude Oil Procurement

The stable procurement of inexpensive crude oil is crucial to strengthening our business foundation in Japan. Establishing and maintaining friendly relations with Middle Eastern oil-producing countries is therefore always necessary. Idemitsu has had offices in the Middle East since before the first oil shock in 1973 and has recently promoted joint-venture projects aimed at strengthening such strategic, mutually beneficial relationships.

The strength of our supply chain, encompassing crude oil procurement, imports, production, logistics and sales, lies both in our firm relationships of trust with oil-producing countries as

well as in our unity with and Group awareness among retail outlets and robust ties with other business partners. We will continue to firmly secure the supply chain going forward.

2. Streamlining Our Network and Strengthening Global Competitiveness

To lower costs and ensure procurement stability, we formulated a crude oil processing plan that takes into account our sales volume and the balance of supply and demand.

Over the last 10 years, Idemitsu has spearheaded the Japanese petroleum refining industry's efforts to eliminate excess domestic facilities. At the end of fiscal 2013, Idemitsu terminated the crude oil refining function (excluding its function as an oil depot) of the Tokuyama Refinery. Renamed the

“

We will continue contributing to Japan's energy security by achieving sustainable growth in all our operations, both in Japan and overseas.

”

Tokuyama Complex in fiscal 2014, it has found new life as the center of our petrochemical business, with the Shunan Industrial Complex backing it up. We thus have secured stable supply centered on three refineries—in Hokkaido, Chiba and Aichi—and the Tokuyama Complex. We are presently reinforcing our stable supply chain throughout the country, to that end making deft use of imports, exports, logistics alliances with other companies and domestic procurement along with other measures while keeping our in-house supply below total sales volume.

Furthermore, in response to the gradual downward trend in fuel oil demand in Japan, we decided to proactively begin incrementally reducing the throughput of our atmospheric distillation units. Idemitsu is required to reduce said throughput by 55,000 barrels per day by the end of fiscal 2016 under the Second Notice of the Act on Sophisticated Methods of Energy Supply Structures. We decided to get a head start, and began reducing throughput at the Chiba Refinery by 20,000 barrels per day from April 2015. We will continue working to strengthen our earnings potential and improve the balance of supply and demand in Japan, giving due consideration to regional trends and our distribution agreements.

3. Talks on Merging Management with Showa Shell Sekiyu

In July 2015, Idemitsu decided to acquire 33.3% of Showa Shell Sekiyu K.K.'s shares from the Royal Dutch Shell Group. The unification of the management resources and knowhow of our two companies, will result in an integrated energy com-

pany boasting a considerable market presence backed by clear growth strategies, thereby maximizing corporate value. Looking ahead, we will sincerely advance the discussions toward a merger and continue working toward establishing a robust management foundation.

4. Enhancing Our Brand Network

Idemitsu has 31 retail and operational branches across Japan. We are promoting sales activities together with retail outlets that manage service stations. With our superior business infrastructure, including leading-edge point of sale (POS) systems and the oil industry's only group credit card, we aim to swiftly and precisely assess customer needs, develop products and enhance our services accordingly. In fiscal 2014, we began accepting Rakuten, Inc.'s R-Point Card with the aim of enhancing customer convenience. We are simultaneously working to establish and renovate service stations and reinvigorate existing stations.

(2) Expanding Overseas Operations and Supporting Japan's Energy Security

1. Building Strategic, Mutually Beneficial Relationships with Resource-Rich Countries

The Nghi Son Refinery and Petrochemical Complex project in Vietnam will be the first refinery constructed overseas by one of Japan's primary oil distributors and is the embodiment of the Company's vision of overseas business. Operations are slated to begin in 2017. This is one of the largest industrial projects to be undertaken in Vietnam and is expected to help boost the

Message from the President

country's economy through the stable supply of quality petroleum products.

In addition, the two countries partnering with us in this project—Vietnam and Kuwait—are both oil-producing countries. This project will deepen bonds and alliances between the two countries and Idemitsu while playing a large role in ensuring Japan's energy security. Amid shrinking demand for petroleum products in Japan, the Company is building a solid business foundation in growth markets where new demand is anticipated.

With ongoing competition in the global energy sector, Idemitsu is focusing on making the natural gas business a management pillar. We have formed an alliance with AltaGas Ltd., the operator of the only pipeline connecting the interior of Canada to the West Coast. We are continuing a feasibility study on exporting competitive LNG and LPG to Japan and elsewhere in Asia from the West Coast of North America, which offers the dual benefits of harboring fewer geopolitical risks and requiring a short transport distance. The first step was taken in August 2014, when we began exporting LPG to Japan two years ahead of schedule from Petrogas Energy Corp., a company in which we own stock through our joint venture with AltaGas.

2. Diversifying Energy Sources (Oil Exploration, Coal, Uranium)

Idemitsu is engaged in oil, coal, uranium and other resources businesses.

The oil exploration and production business is promoting production, exploration and development activities in Norway, the United Kingdom and Southeast Asia. In the Norwegian North Sea, our principal area of focus, we commenced production of the H-Nord Field in September 2014 and the Knarr Field in March 2015.

In the coal business, Idemitsu owns interests in four coal mines in Australia and has developed a value chain that encompasses everything from production through sales. In 2014, we sold a portion of our interest in the Boggabri Mine to a customer in Japan who is also a long-term stable buyer. We acquired 30% of shares in the coal company that possesses an interest in Malinau Mines in Indonesia, which is expected to see a rise in demand due to its low-ash, low-sulfur product. Through these and other measures, we are continuing to strengthen our business by reshuffling our coal portfolio.

In the uranium business, we began mining uranium at the Cigar Lake Mine in Canada and producing uranium concentrate at a commissioned smelter in 2014.

2. Management Issues and Responses in Non-Financial Fields

(1) Strengthening Corporate Governance

Idemitsu has adopted the structure of a company with an audit & supervisory board, established a robust corporate governance system and continues to engage in activities aimed at improving its capabilities in this field. The Audit & Supervisory Board comprises five statutory auditors, including three independent

(3) Helping Build a Society in Harmony with Nature

1. Developing Renewable Energy in Japan

Renewable energy is a valuable contributor to Japan's energy supply. Idemitsu is working to expand its electric power operations, including wind, biomass, and mega solar power generation. We also aim to develop new geothermal power projects. Specifically, we have funded Futamata Wind Development Co., Ltd. in Aomori prefecture, signaling our entry into the wind power business. We also constructed and commenced operations of mega solar power plants, which utilize formerly idle plots in our asset portfolio, in Iwaki City, Fukushima Prefecture, the town of Moji in Kitakyushu City, Fukuoka Prefecture, and Himeji City, Hyogo Prefecture. With regard to biomass power, Idemitsu provided 50% of the funding for Tosa Green Power Co., Ltd., which has constructed a power station that commenced operations in April 2015. We are also providing funding for Fukui Green Power Co., Ltd., which plans to begin bringing a power station online in April 2016.

As for geothermal power, our operations in Takigami, Oita Prefecture remain stable, and we have decided to introduce binary cycle power generation in the region. Furthermore, we are continuing to conduct geological surveys in Hokkaido and Akita prefectures as we look to expand this business.

2. Promoting Global Growth Strategies in the Functional Materials Businesses

In the lubricants, electronic materials, agricultural biotechnology and performance chemicals businesses, we are expanding overseas operations, focusing on marketing energy-saving and eco-friendly products that incorporate proprietary technologies, and aiming to secure a growth trajectory for each business.

Among these is the lubricant business, which has established a uniformly strong product supply structure covering major regions worldwide and is working to set up a support system overseas similar to that in Japan. In fiscal 2014, we established a new base in Beijing, which is one of the largest centers for China's automobile industry. This constitutes our sixth base in China. Thanks to these efforts, we expanded overseas sales, and our combined total domestic and overseas lubricant sales volume surpassed the previous year's, setting a new record high.

Moreover, the electronic materials business expanded the organic light-emitting diode (OLED) display panel business, concluding an agreement with LG Display Co., Ltd. for licensing patents related to OLED devices and forming a strategic OLED technology alliance.

outside auditors. At the ordinary general meeting of shareholders in June 2014, two new independent outside directors were appointed to further strengthen the system. As our business diversifies through the expansion of overseas businesses and capital and operational alliances, we will incorporate their experience and expertise as leaders in international law and

management accounting into the Board of Directors and orient management toward sustainable growth.

In May 2015, the amended Companies Act took effect, and, in June, the Tokyo Stock Exchange's Corporate Governance Code entered into force. We have completed everything needed to comply with the former and, after careful consideration of our response to the latter, we will disclose all necessary information in our Corporate Governance Report by the deadline of December 2015.

(2) Safety Assurance and Environmental Protection

For the Idemitsu Group, which handles large volumes of hazardous materials, safety assurance and environmental protection are the most important issues in non-financial fields. Explosions, fires, oil spills and other accidents must be absolutely avoided to fulfill our corporate social responsibility. On a corporate level, they constitute the greatest risks to our achievement of business objectives, including the securing of profit and cash flows and the restructuring and strengthening of our business structure. Under the Third Consolidated Medium-Term Management Plan and on into the Fourth, we seek to ensure that there are zero major accidents. With the Environmental Protection Headquarters leading the way, the entire Group is promoting initiatives aimed at protecting the environment and ensuring safety and security.

(3) Business Continuity Plans (BCPs)

The Idemitsu Group has drawn up various rules for dealing with crises as well as several BCPs, including one that anticip-

pates an inland earthquake in the Tokyo area and another an earthquake in the Nankai region. Our efforts to improve the earthquake resistance of our equipment are ongoing. The purpose of these efforts is to enable us to fulfill our social duty of maintaining supply of petroleum and petrochemicals even after experiencing a major earthquake or other disaster. To ensure we are capable of responding on a practical level in emergency situations, we implement periodic crisis drills covering each location's entire site. We review our BCPs based on the results of the drills as part of our efforts to strengthen our crisis readiness.

(4) Diversity Measures

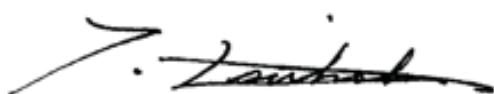
Idemitsu fosters a work environment that encourages employee interaction and cooperation regardless of nationality, sex or age. This approach is rooted in our Principles of Management, specifically, playing a beneficial role in society by creating an environment where people trust each other and work together" and "ensuring that each employee develops into a reliable person while engaging in mutual improvement through amicable competition." To ensure that each employee is able to fully utilize their talents in the workplace, we are focusing our efforts on skills development, work-life balance and support for mothers returning to work. Our employees, with their diverse perspectives and values, grow professionally while maintaining mutual respect for each other. With the aim of using this fact as a catalyst for reform, in July 2015, we established a specialized business unit in the Human Resources Department. Looking ahead, we will continue to formulate and promote various measures needed to achieve our aim.

II. Innovation Springs from the Tremendous Wellspring of Human Beings, and the Accumulation of Such Innovation Forms Our Tradition

Since its founding, Idemitsu has adhered to the management principle of respect for human beings, undertaking business with a focus on people and contributing to the sustainable development of society through its operations. Moreover, in addition to the legally binding Company's Articles of Incorporation, we adhere to a set of moral principles that are more abstract but no less binding. The essence of these principles can be summed up as "set an example for the nation and society by showing people genuinely engaged in work."

Allow me to elaborate: All of Idemitsu's employees strive to be diligent and think carefully for themselves about each issue before taking action. Working closely with those around them, they are collectively capable of unimaginable strength. These people should be viewed as role models for the world. I believe Idemitsu's 100-plus year history is a reflection of the history of each and every one of its employees displaying decisive action and strong will, a will that at times may have motivated the rest of society.

As we take the first steps on our next 100-year journey, the global energy market is entering an era of sweeping change unlike any before with the emergence of unconventional resources and growing environmental concerns. Amid these circumstances, Idemitsu continues to believe in the possibilities created by the tremendous potential of human beings, to generate innovation by managing business with a focus on people, and to form new traditions through the accumulation of innovation. I believe this is Idemitsu's way as well as its duty.



Takashi Tsukioka
Representative Director & Chief Executive Officer,
Idemitsu Kosan Co., Ltd.

Idemitsu Group Operating Results Summary

Consolidated Financial Highlights

	FY2010	FY2011	FY2012	FY2013	FY2014	Change (%) FY2013/FY2014
For the year						
Net sales (million yen)	3,659,301	4,310,348	4,374,696	5,034,995	4,629,732	(8.0)
Operating income (million yen)	128,771	138,078	110,684	78,197	(104,798)	—
Ordinary income (million yen)	128,015	133,559	109,122	81,921	(107,618)	—
Net income attributable to owners of the parent (million yen)	60,683	64,376	50,167	36,294	(137,958)	—
Net income per share (yen)	1,517.45	1,609.83	313.63* ²	226.90* ²	(862.50)	—
Cash dividends per share (yen)	200	200	200	125* ³	50	—
At year-end						
Total assets (million yen)	2,517,849	2,682,139	2,728,480	2,995,063	2,731,001	(8.8)
Total equity (million yen)	540,880	614,513	687,948	743,786	630,384	(15.2)
Number of employees	8,201	8,243	8,684	8,749	8,829	0.9
Reference data:						
Dubai crude oil price (US\$/barrel)	84.2	110.1	107.1	104.6	83.5	(20.2)
Naphtha price (US\$/ton, after customs)	763	971	965	939	817	(12.9)
Exchange rate (yen/US\$)	86.7	80.1	84.1	101.2	110.9	9.6

Notes: 1. Figures in parentheses represent negative values.

2. Idemitsu conducted a 4-for-1 stock split on January 1, 2014 for shareholders recorded in the registry on December 31, 2013. Net income per share was calculated as if the stock split had been conducted on April 1, 2012.

3. Cash dividends of ¥125 per share for FY2013 comprise a ¥100 interim dividend distributed before the stock split and a ¥25 year-end dividend distributed after the stock split.

Fiscal 2014 Economic Environment

In fiscal 2014, the Japanese economy gradually improved, with stock prices continuing to rise and the yen weakening further thanks in part to monetary easing by the Bank of Japan. Employment and wages also remained steady.

Turning to the domestic market for petroleum products, although demand for diesel oil remained roughly level with that of fiscal 2013 owing to firm demand from transportation, demand for gasoline and kerosene was weaker due to drop in consumption after the tax hike in April, inclement summer weather and mild winter weather. Moreover, overall petroleum product demand fell from the previous fiscal year as energy-saving measures suppressed demand for fuel oil for power generation.

Dubai crude oil prices temporarily rose to over US\$110 per barrel until the end of June amid escalating concerns over geopolitical risks but then began to sink. At their general meeting in the second half of November, OPEC opted not to reduce production to rebalance supply and demand, accelerating the decline. From late December, Dubai crude oil was trading at around US\$50. As a result, the average price for the fiscal year fell US\$21.1 year on year to US\$83.5 per barrel.

And, although demand for petrochemicals remained relatively unchanged from the previous fiscal year, the depreciation of the yen helped improve the export business environment. The price of

the petrochemical raw material naphtha fell US\$121 to US\$817 per ton.

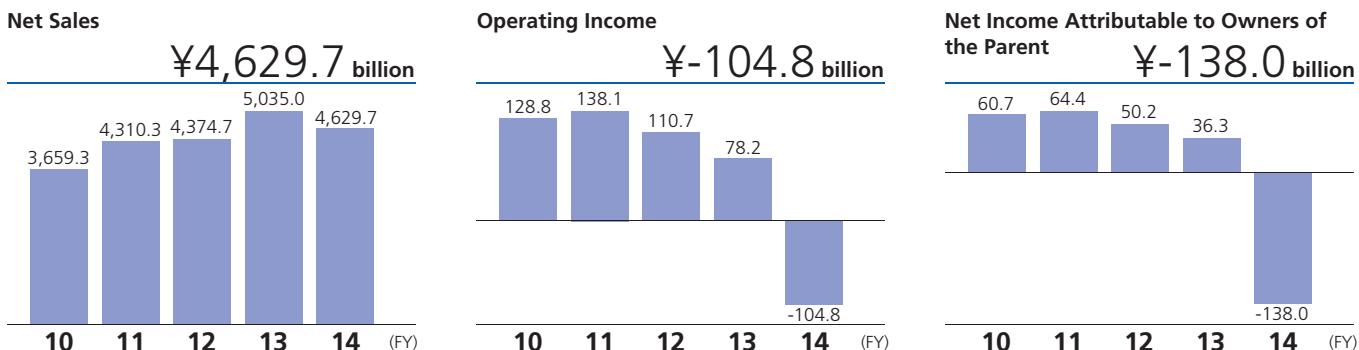
The yen continued to weaken against the U.S. dollar, falling ¥9.7 compared with the previous fiscal year average to ¥110.9.

Fiscal 2014 Operating Results Summary

Idemitsu's fiscal 2014 net sales fell 8.0% from the previous fiscal year to ¥4,629.7 billion primarily due to lower crude oil prices. Operating loss was ¥104.8 billion, compared with income of ¥78.2 billion in the previous year, for a cumulative fall of ¥183.0 billion mainly attributable to shrinking profit margins for petrochemicals and the incurrence of a large valuation loss on inventories due to the steep decline in crude oil prices. Ordinary income dropped ¥189.5 billion to record an ordinary loss of ¥107.6 billion. Net income after income taxes and minority interests for fiscal 2014 was down ¥174.3 billion year on year, resulting in a net loss of ¥138.0 billion, our first negative result since being listed on the first section of the Tokyo Stock Exchange in 2006.

Fiscal 2014 Operating Results by Segment

Since fiscal 2014, net sales and the operating income/loss of the coal sales business have been included in resources instead of petroleum products. Comparisons with the previous year's figures have been adjusted to reflect the new segmentation.



In petroleum products, growing margins and other positive effects were outweighed by the negative effects of a large valuation loss on inventories due to the steep decline in crude oil prices, pushing operating income down ¥128.5 billion year on year to an operating loss of ¥111.6 billion. Valuation loss on inventories, which is included in operating loss, stood at ¥129.6 billion.

In petrochemical products, operating loss was ¥7.1 billion, a fall of ¥43.6 billion, largely due to lower margins. Valuation loss on inventories, which is included in operating loss, stood at ¥3.7 billion.

In resources, operating income fell 50.8% to ¥13.1 billion. Gains from increased production and sales from Norwegian North Sea oil fields, increased coal production and rationalization and cost reductions in the coal business were offset by losses from lower crude oil prices and increased exploration costs.

In others, operating income grew 33.4% to ¥3.3 billion. Other businesses comprise electronic materials, agricultural biotechnology, gas and renewable energy.

Policy on Shareholder Returns

Idemitsu considers the return of profits to shareholders to be an important management issue. We distribute stable dividends while

undertaking strategic investments geared toward strengthening existing businesses as well as future business development, the balance of operating results and the improvement of our financial condition.

The year-end dividend for fiscal 2014 was ¥25 per share. Dividends for the full year totaled ¥50 per share. The Company plans to pay out dividends of ¥50 per share for fiscal 2015 (full year).

Outlook for Fiscal 2015

In fiscal 2015 net sales are expected to decline 6.0% year on year to ¥4,350.0 billion due in part to lower yearly average crude oil prices. In addition, Idemitsu expects a ¥196.8 billion turnaround in operating income to ¥92.0 billion due mainly to improved profit margins for petroleum products and no projection of valuation losses on inventories. Also forecast is a climb of ¥196.6 billion resulting in ordinary income of ¥89.0 billion. Net income attributable to owners of the parent is expected to reach ¥56.0 billion, a ¥194.0 billion improvement. These projections for the fiscal year ended March 2016 are based on an assumed Dubai crude oil price of US\$60 per barrel and an exchange rate of ¥120 to the U.S. dollar.

■ The Impact on Results of Valuation Gains/Losses on Inventories Due to Fluctuations in Crude Oil Prices and the Exchange Rate

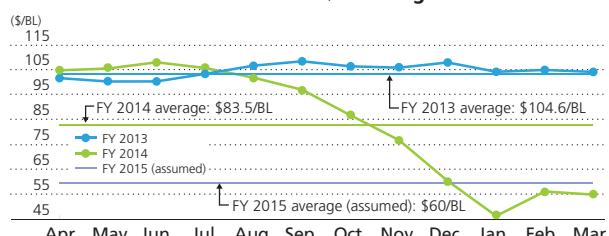
As a private corporation that is obligated to stockpile oil because it is a primary oil distributor, Idemitsu faces increasingly strong pressure on its operating results from valuation gains or losses on inventories. These valuation gains or losses are strongly tied to crude oil prices and the exchange rate. As a primary oil distributor, Idemitsu uses the weighted-average method as its valuation method for inventories. Depending on the difference between inventory valuation at the beginning of the period and the average for the period, the cost of goods sold will either fall (expanding earnings) or rise (contracting earnings), resulting in, respectively, a gain or a loss.

Under the weighted-average method, if crude oil prices fall precipitously from the middle of the period, the relatively expensive crude

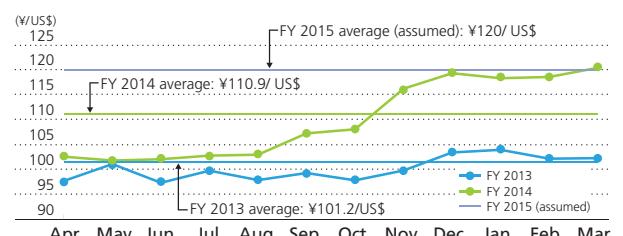
oil inventory held at the beginning of the period factors into cost accounting, bringing down recorded earnings. Conversely, if crude oil prices rise from the middle of the period, the relatively cheap crude oil inventory held at the beginning of the period will bring up recorded earnings.

As for the influence of fluctuations in the exchange rate, because contracts for crude oil purchases are denominated in U.S. dollars, if the yen is strong, crude oil procurement costs calculated in yen are lower, resulting in an inventory valuation loss just like when crude oil prices fall. Conversely, a weak yen results in valuation gains on inventories just as when crude oil prices rise.

Crude Oil Prices and the Yen/U.S.\$ Exchange Rate



In fiscal 2013, crude oil prices remained at a relatively stable \$105 per barrel. In fiscal 2014, however, beginning in June, crude oil prices plunged, falling to \$45 per barrel by January 2015, below half the starting value.



The yen/U.S. dollar exchange rate (Telegraphic Transfer Selling (TTS) rate) in fiscal 2013 was a comparatively stable ¥100 to the U.S. dollar. In fiscal 2014, however, beginning in September, the yen began to weaken. The average annual exchange rate went from ¥101.2 in fiscal 2013 to ¥110.9 in fiscal 2014, weakening 9.6%.

Fourth Consolidated Medium-Term Management Plan (FY2013–FY2015): Overview and Progress



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Management Indicators

(Unit: billion yen, %, times)

	FY2014					FY2015				
	Actual	Medium-Term Plan	May 7 forecast	Medium-Term Plan /May 7 forecast	FY2014/May 7 forecast	Actual	Medium-Term Plan	May 7 forecast	Medium-Term Plan /May 7 forecast	FY2014/May 7 forecast
Net sales	4,629.7	4,640.0	4,350.0	(290.0)	(279.7)					
Operating income*	(93.5)	150.0	101.0	(49.0)	194.5					
(Breakdown of operating income excluding inventory impact)										
Core businesses	12.0	64.0	86.0	22.0	74.0					
Resource businesses	12.2	54.0	(5.5)	(59.5)	(17.7)					
Functional materials businesses	17.1	36.0	23.0	(13.0)	5.9					
Shared	(1.5)	(4.0)	(2.5)	1.5	(1.0)					
Net income attributable to owners of the parent	(138.0)	53.0	56.0	3.0	194.0					
ROIC**	(5.6%)	8.6%	6.0%	(2.6%)	11.6%					
Equity ratio	21.5%	24.8%	22.7%	(2.1%)	1.2%					
Net D/E ratio	1.5	1.2	1.4	0.2	(0.1)					

* Operating Income: Includes equity-method investment income/losses and dividends income

** ROIC (Return on Invested Capital): Shareholders' equity + interest-bearing debt + minority interests

Major Assumption

(Unit: US\$/barrel, yen/US\$)

Crude oil price (DB)	83.5	105.0	60.0	(45.0)	(23.5)
Exchange rate (TTS)	110.9	90.0	120.0	+30.0	+9.1

Progress Made to Date

In fiscal 2014, operating results came in below target for the Fourth Consolidated Medium-Term Management Plan. Contributing factors included a large valuation loss on inventories due to plunging crude oil prices in the second half of the year, a large loss in the resources business, and a significant increase in total investment costs due to the weaker yen. In fiscal 2015, the final year of the plan, we are targeting ¥150.0 billion in operating income (including equity in earnings of affiliates and dividends received), ¥53.0 billion in net income attributable to the owners of the parent, an 8.6% return on

invested capital, a 24.8% equity ratio, and a D/E ratio of 1.2 times. However, while we forecast a substantial recovery beginning in fiscal 2014, we expect management indicators (except for net income attributable to owners of the parent) to come in below target. We anticipate a severe business environment due in part to stagnant resource prices but aim to quickly achieve our targeted management indicators by securing profit margins in core businesses, expanding earnings in functional materials, investing more shrewdly and reducing costs.

		Initiatives to date		Initiatives from FY 2015 onwards
Core Businesses	Fuel Oil	<ul style="list-style-type: none"> ■ Suspended oil refining at the Tokuyama Refinery, establishing a system comprising three refineries, one petrochemical plant and one industrial complex ■ Maintained our alliance with Mitsui Chemicals at the Keiyo Industrial Complex and enhanced the competitiveness of the Tokuyama Complex within the Shunan Industrial Complex ■ Made progress on the Nghi Son Refinery and Petrochemical Complex project, which began construction in July 2013 ■ Commenced mega solar power generation in Moji, Himeji and Onahama ■ Commenced woody biomass power generation operations at the Tosa Power Plant in Kochi Prefecture ■ Began geothermal surveys in Hokkaido and Akita prefectures and decided to construct a binary cycle power plant at the Takigami Office of Idemitsu Oita Geothermal Co., Ltd. 	<ul style="list-style-type: none"> ■ Respond to the structural transformation of the oil industry and the Second Notice of the Act on Sophisticated Methods of Energy Supply Structures ■ Continue to make progress on the Nghi Son Refinery and Petrochemical Complex project ■ Strengthen cooperation at the Keiyo and Shunan industrial complexes. ■ Expand the renewable energy business ■ Pursue further rationalization and cost reductions 	
	Basic Chemicals			
Resources Businesses	Renewable Energy			
	Oil Exploration	<ul style="list-style-type: none"> ■ Commenced production at the Knarr and H-Nord oil fields in Norway ■ Took an equity stake in Petrogas Energy Corp. of Canada and began exports of LPG from North America ■ Expanded underground mining at the Ensham coal mine in Australia ■ Strengthened relations with major customers by selling a portion of interest in the Boggabri coal mine in Australia while also expanding production ■ Acquired a 30% interest in the Malinau coal mines in Indonesia ■ Pursued further rationalization and cost reductions, saving ¥7.0 billion compared with 2012 ■ Commenced production at Canada's Cigar Lake uranium mine in March 2014 	<ul style="list-style-type: none"> ■ Secure interest in oil fields and expand production to 40,000 barrels/day ■ Continue to consider starting a business in Canada handling LPG and LNG ■ Improve cash flow in part through cutbacks in investment ■ Expand production at the Boggabri Mine and begin production of high-grade coal ■ Continue to expand underground mining at the Ensham Mine ■ Pursue further rationalization and cost reductions 	
	Coal			
	Uranium			
	Lubricants			
	Performance Chemicals			
Functional Materials Businesses	Electronic Materials	<ul style="list-style-type: none"> ■ Commenced production and sales at the Company-owned lubricant factories in India and Vietnam ■ Enhanced the competitiveness of engineering plastic in part by moving production of all-purpose grade polycarbonate resin to Taiwan ■ Expanded sales of OLED materials to manufacturers of small and medium-sized displays ■ Strengthened cooperation with SDS Biotech K.K. by expanding the agricultural biotechnology business and enhancing competitiveness, in part by acquiring India's SRC and providing funding for the China International Agrochemical & Protection Exhibition (CAC) 	<ul style="list-style-type: none"> ■ Expand sales of lubricants and bolster overseas business expansion ■ Promote functional liquid polymer (hydrogenated petroleum resin) overseas ■ Expand sales of OLED materials by capturing growing demand ■ Further expand the agricultural biotechnology business overseas into Asia, North America, Australia and elsewhere 	
	Agricultural Biotechnology			

Investments

(Unit: billion yen)

Strategic segment			FY2013-2015	FY2013	FY2014	FY2015	FY2013-2015	
			Medium-Term Plan	Actual	Actual	May 7 forecast	Forecast	Forecast/Plan
Strategic segment	Core businesses	146.0	84.6	31.1	61.3	177.0	31.0	
	Resource businesses	159.0	63.9	76.1	27.0	167.0	8.0	
	Functional materials businesses	35.0	9.2	5.7	3.1	18.0	(17.0)	
	Total strategic investments	340.0	157.6	112.9	91.4	362.0	22.0	
	Maintenance/renewal investments	110.0	32.8	32.8	36.4	102.0	(8.0)	
	Total	450.0	190.5	145.7	127.8	464.0	14.0	

Depreciation and amortization*	240.0	66.4	70.1	89.4	226.0	(14.0)
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*Includes goodwill amortization

Our Businesses

The Petroleum Business Value Chain

Since the Group's founding in 1911, its fundamental purpose as a business has been to serve as a connection between producers and consumers. Accordingly, we have optimized our distribution capabilities with the overarching goal of establishing an extensive retail network that connects directly with consumers. Moreover, moving beyond its origins as simply a dealer in petroleum products, Idemitsu has striven to realize its founder's vision of creating a comprehensive business structure that covers the entire value chain from crude oil procurement and production through sales.

Because inexpensive and reliable crude oil procurement is crucial to securing our supply system and raising our competitiveness, we constantly pursue stronger ties with oil producing countries. At the same time, we aim for sustainable growth and to this end work to cut costs related to the production and storage of petroleum products and basic chemical products, which are the raw materials of petrochemicals. We also strive to reduce transportation costs while strengthening and enhancing the powerful brand network underpinning our sales network.

FY2014 Results

Crude oil production: **10.59** million BOE
(petroleum equivalent 1.68 million kl)

Crude oil imports: **172.7** million BOE
(petroleum equivalent 27.46 million kl)

3 refineries with a combined throughput of
27.07 million kl

2 petrochemical plants with a combined production capacity of **3.7** million tons (ethylene equivalent)

FY2014 Environmental Impact

Extraction

INPUT

Energy: **32** PJ

Equivalent in crude oil:
830 thousand kl

OUTPUT

CO₂ **1,872** kt

SO_x **21,917** t

NO_x **5,894** t

Import (one way by tanker)

INPUT

Energy: **11** PJ

Equivalent in crude oil:
287 thousand kl

OUTPUT

CO₂ **795** kt

SO_x **14,784** t

NO_x **22,182** t

Domestic manufacturing

INPUT

Energy: **136** PJ

Equivalent in crude oil:
3,512 thousand kl

Water: **60,415** kt

Seawater: **1,199,226** kt

OUTPUT

CO₂ **7,121** kt

SO_x **7,967** t

NO_x **6,392** t

Soot/dust **232** t

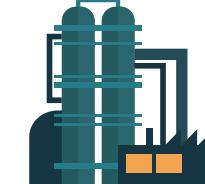
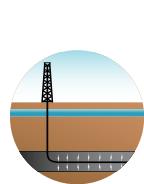
Wastewater **1,257,684** kt

COD **86** t

Total nitrogen (TN) **100** t

Total phosphorus **1.6** t

Final disposal (landfill) **89** t



Our extended family of major business partners

Cooperatives Association for Building and Maintenance
Cooperative Association for Sea Transport
Cooperative Association for Land Transport

Asahi Tanker Environment and Safety Council

Core Businesses (Fuel Oils and Basic Chemicals)

Crude Oil Drilling and Procurement

International Transport

- Idemitsu Tanker Co., Ltd.

Oil Refining

- Idemitsu Engineering Co., Ltd.
- Idemitsu Plantech Hokkaido Co., Ltd.
- Idemitsu Plantech Chiba Co., Ltd.
- Idemitsu Plantech Aichi Co., Ltd.
- Idemitsu Plantech Tokuyama Co., Ltd.

Domestic Transport

Petrochemical Manufacturing

- Chiba Chemicals Manufacturing LLP

Basic Chemicals

Resources Businesses

Oil Exploration

- Norwegian North Sea oilfields
- U.K. North Sea oilfields
- Nam Rong-Doi Moi Field (Vietnam)

Functional Materials Businesses

Lubricant Manufacturing

- Idemitsu Lube Techno Co., Ltd.
- Union Oil Industry Co., Ltd.

Lubricant Products

Petroleum's Place in Japan

- While petroleum remains Japan's primary source of energy, at 40% of the total supply, its dependence on oil has been on the decline since the oil shock.
- Over 99% of the crude oil and other forms of petroleum consumed are imported, including from the Middle East, and then refined domestically to supply to consumers. This allows companies to control oil processing in line with domestic demand and reduce costs thanks to bulk shipping using crude oil tankers.
- Due to the structural factors of an increasing rate of switchover to the use of LNG and other forms of fuel and the aging of Japanese society, oil demand began to decline in the 2000s, and this trend is only expected to continue.
- The domestic imbalance between supply and demand is temporarily shrinking, but if current refining capacity is maintained, it is feared there will again be an oversupply.

19 oil depots in Japan
with a combined fuel oil storage capacity of **590** thousand kl

3,725 service stations across Japan
selling a combined **8.2** million kl of gasoline



Our Businesses

Fuel Oil Business Initiatives

Securing a Strong Foundation in Japan

Crude Oil Procurement

Forming strategic partnerships with oil-producing countries in the Middle East



Until it constructed the Tokuyama Refinery in 1957, Idemitsu's principal source of petroleum products was a Japan-based oil refining company. Even before that date, we were operating our own tankers to handle the large-scale transportation of high-quality, inexpensive petroleum products between Japan and U.S. and other overseas suppliers boasting stable supplies and consistent quality, a tradition we have maintained ever since.

In 1953, we gained worldwide attention by taking the lead in opening direct trade with oil-producing countries in the Middle East beginning with the Nissho Maru Incident, wherein we challenged the Seven Sisters (the nickname given to the group of Western oil companies that dominated the market at the time) and imported petroleum products directly from financially strapped Iran. After the Chiba Refinery came on line in 1963, procuring crude oil for local refinement became our primary focus. In 1973, with control over Middle Eastern crude oil shifting from the Seven Sisters to the oil-producing countries themselves, we established offices in Beirut, Tehran and other locations in the Middle East to strengthen our direct ties with those countries and secure crude oil and petroleum products. Even now, our network of offices in the Middle East functions as our principal point of contact with oil-producing countries. In fiscal 2014, we held ceremonies to celebrate the 35th year of trade with Qatar and the 30th year of direct crude oil trade with Oman.



The ceremony commemorating the 30th year of direct crude oil trade with Oman

The environment surrounding Idemitsu and Middle Eastern oil-producing countries has changed remarkably over the last ten or so years. Crude oil prices have steadily risen and demand for crude oil has expanded in emerging economies while demand for petroleum has decreased in Japan. [Idemitsu is going beyond simply trading crude oil and is seeking to form strategic partnerships with Middle Eastern oil-producing countries, with efforts oriented toward supporting human resources through business investments, technical cooperation and personnel exchanges.](#)

Business Investments

In 2006, Idemitsu provided 10% of the funding for Qatar's Laffan Refinery 1 and, in 2009, production commenced. In addition to providing know-how and technology gained through our own refinery operations to help get the facility started, in 2012 we dispatched an operational advisor to serve as head of operations, thereby contributing to stable operations. We have agreed to fund a second refinery, Laffan Refinery 2, and signed an agreement to this end in 2013 with the goal of completing construction in 2016. Construction is progressing steadily, and in 2014 the deep desulfurization units for diesel oil came on line ahead of the other facilities. To support the new facility's construction, we have dispatched Idemitsu technicians.



Qatar's Laffan Refinery 1 © Qatargas

Responding to Social Issues through the Fuel Oil Business

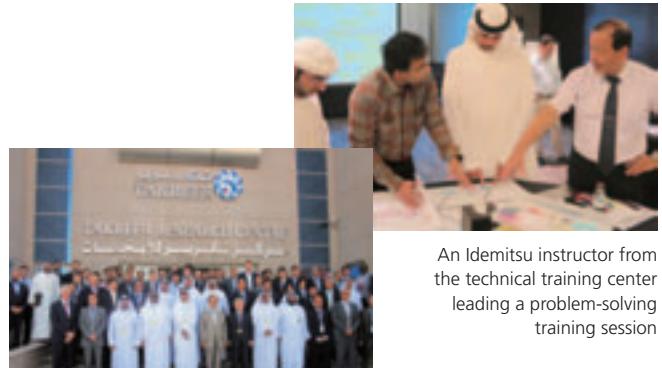
1. As Japan relies on imports for most of its crude oil, building long-term relationships with oil-producing countries is crucial.
2. The risks related to procuring crude oil continue to diversify. Geopolitical risks are growing, including political instability and terrorism in oil-producing countries. Competition is heating up in expanding Asian markets. Concerns remain over a supply glut in the crude oil market and the uncertain future of the liquidity-driven market that has pushed global stocks higher since 2009. In light of these challenges, there is a driving need for stronger corporate foundations in the petroleum industry.



Technical Cooperation

Idemitsu was the first participant of the TAKREER Research Centre (TRC) project, a joint venture between the U.A.E.'s Abu Dhabi Oil Refining Company (TAKREER) and Japan Cooperation Center, Petroleum (JCCP), and has been supporting its daily operations. This project is divided into three phases. Thus far we have provided guidance on using equipment at the pilot plant, assessed catalysts and examined issues at refineries. Since 2012, the final year of Phase II, an Idemitsu senior researcher has been serving at TRC as the Head of Advisor, drawing on our oil-refining skills, experience and know-how cultivated at our own refineries to contribute to the development of TRC.

Moreover, since the 1980s, Idemitsu has been providing technical training for operators from refineries in oil-producing countries. This invaluable training helps mold employees into leaders at the forefront of production. As of 2014, about 420 overseas trainees were being provided training at our refineries, laboratories, and the Manufacturing & Technology Department's technical training center. In addition, Idemitsu SM (Malaysia) Sdn. Bhd. accepted roughly 40 staff members from the Terengganu Refinery of PETRONAS, a national oil company in Malaysia.



The TAKREER Research Centre

An Idemitsu instructor from the technical training center leading a problem-solving training session

Personnel Exchanges

In the Middle East, an increasing number of young, talented professionals are rising to management positions. With such younger professionals entering the management track, fostering mutual understanding and personnel exchanges with Japan and Idemitsu is extremely important to building and developing strategic partnerships.

Beginning in 2005, with the aim of encouraging the exchange of talent at multiple levels with oil-producing countries, Idemitsu began a training program for young executive candidates from Abu Dhabi National Oil Company (ADNOC) and other state-run oil companies. About 75 people have completed this training to date. In addition to classes to understand Japan's oil industry and Idemitsu's production, logistics, procurement, sales and other operations, training includes tours of our refineries and oil depots. We also provide opportunities to learn about Japanese culture. We have received considerable praise from the management of the



Personnel exchanges with Abu Dhabi National Oil Company

TAKREER executives on a tour of the Aichi Refinery

participating state-run oil companies for our efforts. In fiscal 2014, Idemitsu participated in exchanges with executive candidates from ADNOC, Qatar International Petroleum Marketing Company Ltd. (Tasweeq) and Oman's Ministry of Oil and Gas.

Our Businesses

Fuel Oil Business Initiatives

Securing a Strong Foundation in Japan

Oil Refining

Promoting structural reforms and increasing the competitiveness of refineries and petrochemical plants



The Tokuyama Complex. In 2014, this facility took up its new role as the principal supplier of petrochemical raw materials to the Shunan Industrial Complex

Adjusting Facility Capabilities to Match Sales Volumes

In 1957, Idemitsu completed the construction of the Tokuyama Refinery, its first such facility, in Shunan City, Yamaguchi Prefecture. By the mid-1970s, we were meeting Japan's burgeoning demand for petroleum products through refineries constructed in Chiba, Hyogo, Hokkaido and Aichi prefectures. With the acquisition of Okinawa Petroleum Refining Co., Ltd. in 1972, we had a production framework comprising six refineries. In 1995, we achieved total crude oil throughput of 910 thousand barrels per day.

After domestic demand for petroleum products peaked in 1999, divesting excess refining capabilities became an industry-wide issue. Accordingly, we began to optimize our short-run supply by reducing the number of refining facilities we were operating to better match sales volumes. We suspended crude oil processing at the Hyogo and Okinawa refineries in 2003 and at the Tokuyama Refinery in March 2014. Most recently, in light of projected trends in domestic

demand we have taken action well ahead of the rest of the industry, reducing the throughput of the Chiba Refinery by 20,000 barrels per day in April 2015. Our current production framework comprises three refineries with a combined throughput of 535 thousand barrels per day. The production cuts reflect our efforts to maintain an optimal balance between supply and demand while striving to both pare down costs and secure stable supplies.

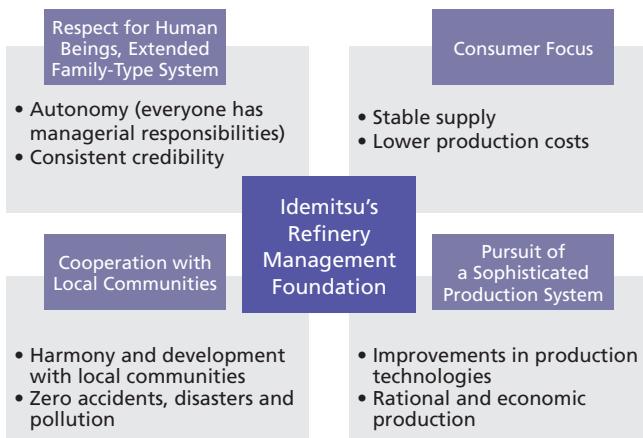
To enhance the competitiveness of our refineries, it has become extremely important to present a unified front of allied oil refining and petrochemical businesses. We are strengthening ties between our fuel oil and basic chemical businesses while our petrochemical plants constantly strive to increase their competitiveness, particularly in the area of olefins, through alliances with other general chemical manufacturers and expanded sales of competitive derivative products.

The Source of Our Competitiveness

Since its founding, the Idemitsu Group has valued individual autonomy as a basic principle. This is based on the idea that every employee should work proactively, take responsibility for their work,

and conscientiously carry out their duties. The Company's role is to bring together and harness the potential of all its employees.

Idemitsu's Refinery Management Foundation



Idemitsu first introduced Total Productive Maintenance (TPM) activities, which were advocated by the Japan Institute of Plant Maintenance, in 1984 at the Chiba Refinery. The scope of activities has since steadily increased to include the manufacturing and engineering sectors of other Group refineries and petrochemical plants. At refineries, petrochemical plants and related business sites, TPM activities go beyond basic plant maintenance to encompass all aspects of management and have been implemented as a means of reshaping attitudes and mindsets. Our efforts have garnered acclaim from outside the Company, receiving awards from the Japan Institute of Plant Maintenance. Looking ahead, we will continue to build a high level of trust in plant operations, plant maintenance, quality assurance, safety assurance, environmental conservation activities and every other facet of management, leading to improved profitability.

Responding to Social Issues through the Oil Refining business

- After the Great East Japan Earthquake, petroleum provided an alternative fuel for power generation, taking the place of electricity and city gas, which had been cut off. This reaffirmed the effectiveness and importance of petroleum as a source of distributed energy.
- Following the disaster, the supply-demand gap gradually narrowed and overall domestic demand declined. Reducing surplus refining capacity and enhancing competitiveness remain pressing issues.



Leveraging Oil Refinery Technology

At the Nghi Son Refinery and Petrochemical Complex project now underway in Vietnam, we are employing our extensive oil refining know-how and technical development capabilities, petrochemical process development capabilities, and TPM-related operational and

safety techniques. Idemitsu is also dispatching a number of technicians to work on the project. These powerful tools will help accelerate the Group's overseas expansion and creation of new businesses.

Building a Stable Supply System for Times of Disaster

Even as they work to reduce their surplus oil refining capacity, Japan's primary oil distributors are required to ensure a robust system that will provide a stable energy supply in the event of a major disaster, which could strike at any time.

Idemitsu's three refineries are central to its business operations and bear great responsibilities, including those intrinsic to its position as Hokkaido's only refinery. Accordingly, we are strengthening safety and assurance measures to prevent accidents and prepare for disasters. In November, the Tokuyama Complex won the Minister's Award for Excellence in the Technical Contest for In-House Disaster-Prevention Organizations in Petrochemical Complexes held by the Ministry of Internal Affairs and Communications, besting the efforts of in-house disaster prevention

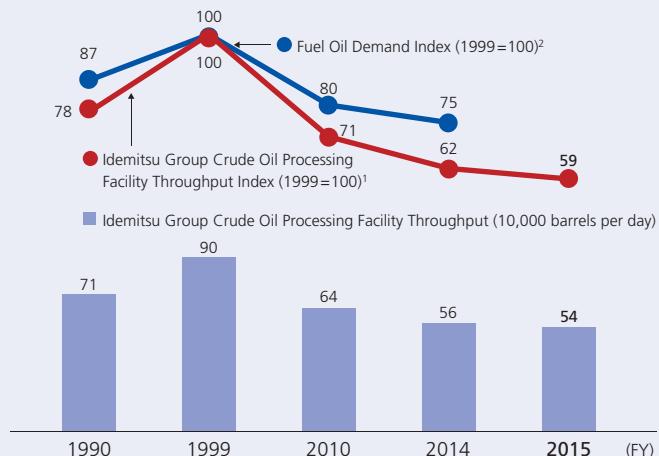
organizations and jointly operated disaster prevention organizations located at 33 other entities from throughout Japan.

We are working to strengthen our supply infrastructure to improve our crisis readiness in response to major disasters. Since shifting to a three-refinery framework, we have expanded drum-filling facilities, strengthened the earthquake resistance of dock-based and tanker truck loading facilities, and enhanced the functions of oil depots at the Tokuyama Refinery (now the Tokuyama Complex), which has suspended oil refining functions. The purpose of these efforts is to enable the safe suspension of plant operations in the event of an earthquake as well as to ensure, for example, the swift shipment of petroleum products stored at oil depots and refineries to supply emergency vehicles and power generators.

Keeping Our Short-Run of Fuel Oil Supply below Total Sales

As surplus refining facilities became a problem, Idemitsu closed its Hyogo and Okinawa refineries in 2003 and 2004. Since then, the Company's strategy has been to maintain its refining capacity at a level below its total sales volume and to supplement any supply deficiency through imports and purchases from domestic companies. We aim to nimbly respond to fluctuations in demand while raising utilization rates at refining facilities and enhancing cost competitiveness.

On a related note, as one of two pillars of Japan's stockpiling strategy, primary oil distributors are required to maintain separate private oil stocks. Currently, stockpiles are required to be equivalent to 70 days of normal supply calculated on a 12-month demand basis.



1. Based on internal Idemitsu reference materials. FY2015 throughput figures are as of April 1, 2015.

2. Based on the Ministry of Economy, Trade and Industry's Yearbook of Production, Supply and Demand of Petroleum, Coal and Coke.

Our Businesses

Fuel Oil Business Initiatives

Securing a Strong Foundation in Japan

Oil Sales

Our Resilient Brand Network with the Idemitsu-kai at Its Core



Prioritizing Consumer Benefit

Idemitsu started out as a dealer in petroleum products. At the time, it was standard practice for a single dealer to handle an entire region. Although our original line of products was limited to lubricants, we noted that there were no specified dealers covering regions offshore, and we used this fact to launch a business directly selling fuel oil to fishing boat operators. We were able to offer fishing boat operators major fuel cost reductions if they were to switch from the kerosene they usually used to power their engines

to diesel oil, which doesn't hinder engine performance. This led to great results for both our business and the fishing boat operators.

The distribution system at the time meant fuel oil went from the oil company through two to three dealers before reaching the consumer for sale. Idemitsu, however, created a distribution system that allowed it to cut out the middleman and conduct retail operations itself through a single large organization covering an extensive area.

Our Extensive Retail Network



A poster promoting petroleum imports (1950s)

The Idemitsu Group's extensive retail network business model was created by unifying the extended family of Idemitsu companies and retail outlets to form the Idemitsu brand network. The extensive retail network is a rational, efficient business model used to directly connect producers with consumers. After World War II, we returned to the petroleum industry and, despite having built a network of retail outlets, faced a great number of challenges in creating an extensive retail network. It was finally made possible thanks to the presence of retail outlets that shared our belief in respect for human beings

and working together as members of Idemitsu's extended family. As post-war demand for automobile fuel expanded, like-minded retail outlets joined us as business partners to create an extensive retail network and extend our service station network.

After its launch in 1950, this idea, or the Idemitsu-kai concept, spread to our operations in every region of the country, providing a forum of exchange for retail outlet managers. These regional groups later merged to form a single organization covering the entire nation. At the annual Joint Meeting and Idemitsu-kai

National Conference, around 1,100 retailers and Idemitsu associates from around Japan gather to affirm policies and activities and pledge to work in unison to achieve their goals. In addition, the Idemitsu-kai has always participated in regional promotional activities for Idemitsu and promoted region-specific social contribution. Its activities have helped raise our brand value while increasing the reliability of our network of service stations and retail outlets.

[Idemitsu considers its strong ties with retail outlets to be the core of its competitiveness and that strengthening this competitiveness will lead to consumer benefit.](#)



The 2015 Joint Meeting and Fiscal 2015 Idemitsu-kai National Conference

Responding to Social Issues through the Oil Sales Business

1. We need to leverage our ability to directly connect with consumers to ensure service station management that responds swiftly to environmental changes and meet regional needs.
2. Given the structural decline in domestic demand, service stations are expected to serve as strongholds of energy supply during times of disaster. The challenge of meeting this social need is the sparsity of service stations in some areas; some with fewer than three.



Strengthening Our Brand Network

In April 1998, the first self-pump service stations appeared in Japan. At the time, it seemed like these stations would not gain much traction, but, by the end of fiscal 2014, they accounted for around 28% of all stations.

At present, the business environment surrounding Idemitsu and retail outlets is undergoing great change. Demand for petroleum is deteriorating due mainly to a low birth rate and graying population. Companies must bear high costs to refurbish underground fuel tanks as stricter regulations under the Fire Service Act mandate measures to prevent the leakage of dangerous substances. Idemitsu and retail outlets need service station management that can overcome these harsh environmental changes. Idemitsu, along with highly specialized Group companies, provides a solid support structure for the management of retail outlets in order to bolster the strength of the extensive retail network it has built up.

Our comprehensive support system for our retail outlets comprises the following companies: Idemitsu Supervising Co., Ltd., which is in charge of providing operational know-how for self-service service stations; Idemitsu Credit Co., Ltd., which handles the issuing and bill processing of credit cards and prepaid cards; Apolloretailing Co., Ltd., which provides education and training for retail employees wishing to acquire mechanic qualifications or improve management techniques and also sells car-care products, including tires and batteries, through service stations; and i BUSINESS PARTNERS Corp., which provides accounting and payroll services using leading point of sale (POS) systems. In April 2012, we formed a capital and business alliance with Yellow Hat Ltd. involving the sale of that company's products at our service stations. In April 2013, we created the joint brand ApolloHat and, as of March 31, 2015, this brand is sold through 110 stores. We continue to enhance our network for our customers' convenience.

Idemitsu decided to participate in the R-Point Card that the online retailer Rakuten, Inc. began issuing in October 2014. We are continually upgrading services tailored to meet the needs of the approximately 90 million Rakuten card members.

On July 1 2015, our service stations became the first in the industry to accept au WALLET cards offered by KDDI Corporation. We continue to diversify our accepted payment methods.

As we strengthen alliances with other industries in these ways, we increase the opportunities for new customers to visit Idemitsu service stations.

As a result of these initiatives, looking at gasoline sales for fiscal 2014, while overall demand declined to 95.6% year on year, sales at Idemitsu service stations fared better at 96.5%.

And, as the number of service stations decreases, the distance between them grows, leading to sparser coverage. Going forward, we will continue to collaborate with associates in various regions to implement measures to deal with this lack of service. One such measure entailed working with the local government and chamber of commerce in Tenryu-mura, Nagano Prefecture on the relocation and maintenance of service stations.



Eco-car maintenance training at Apolloretailing Co., Ltd.



The Idemitsu R Point Card



The press conference unveiling the R Point Card (February 20, 2014)



An ApolloHat store



Measures to deal with the increasing sparsity of service stations

Our Businesses

Distribution Initiatives

Inland and maritime distribution is key to stable supply and energy security.

Responding to Social Issues through Inland and Maritime Distribution

1. As for distribution in Japan, while the shortage of crew for tankers and tanker trucks worsens, the declining number of service stations and consolidation of refineries and oil depots are increasing the average transportation distance.
2. As for international transport, maintaining a highly cost-competitive fleet while responding to tightening global environmental regulations is indispensable to ensuring Japan's energy security.



Idemitsu is [committed to ensuring the country's energy security](#) and maintaining and improving distribution efficiency. We are

[building a more robust and cost-competitive next-generation distribution network.](#)

Inland and Maritime Distribution in Japan

In inland transport, we are introducing 24-kL tanker trucks into our fleet to handle the longer hauls resulting from the consolidation of oil depots. Despite the higher capacity, these tanker trucks are more compact than our current mainstay 20-kL trucks. By 2020, we plan to have replaced 80% of our light and middle distillate tanker trucks, which transport gasoline and refined petroleum products, with these 24-kL trucks.

In maritime transport, the shift to a three-refinery production framework has lengthened our seaborne delivery routes to Western Japan and areas on the Sea of Japan coast. In response we have increased our fleet of domestic tankers about 20% compared with fiscal 2013 to 52 vessels. We have also introduced a fleet deployment optimization system to increase the efficiency of vessel operations. In addition, we have begun setting domestic vessels on international routes, branding them as dual domestic-international vessels, and are focusing efforts on streamlining distribution by routing imports and exports through South Korean terminals.

In October 2014, we merged the order-processing centers in eastern and western Japan, establishing the Central Delivery Management Center. By creating a nationwide centralized management system for orders and deliveries, we are enhancing our ability to respond in times of disaster.



A 24-kL tanker truck



The SUNNY MARS, a dual domestic-international vessel

Leading in Safe, Efficient Overseas Transport

Idemitsu is one of a few primary oil distributors in Japan to maintain its own vessel crews, in this case through Idemitsu Tanker Co., Ltd. Currently, Idemitsu Tanker operates 12 very large crude oil carriers (VLCCs), including the *NISSHO MARU*, each of which is 330 meters in length. The company also operates six very large gas carriers (VLGCs), which measure 230 meters. Idemitsu Tanker directly manages four VLCCs and three VLGCs. These ships have Japanese captains, chief engineers and officers and Filipino crews. Idemitsu Tanker began hiring Filipinos in earnest around 25 years ago and currently there are about 250 in its employ.

The capability of our ocean-faring crews has been steadily nurtured over 75 years of international operations and has garnered

high praise from shipping companies in Japan and overseas. This capability is manifest in the fact that our crews are uniquely qualified among domestic shipping companies to conduct tanker inspections under the Ship Inspection Report (SIRE) Programme operated by the Oil Companies International Forum (OCIMF), conducting roughly 650 inspections annually.

To increase cost competitiveness, we use vessels over a long term (25 years for VLCCs, 30 years for VLGCs) and jointly deploy fully depreciated vessels. We are also working to shorten the time required for scheduled dry-dockings and reduce the extent of necessary restoration work by employing on board maintenance (OBM).

Our Businesses

Renewable Energy Initiatives

Envisioning our long-term future as an energy company and moving forward

Responding to Social Issues through Renewable Energy

1. Reducing CO₂ and other greenhouse gases emitted by burning fossil fuels is an issue confronting all of humanity.
2. Petroleum, natural gas and other fossil fuels account for more than 90% of Japan's energy supply with the majority being imported from overseas. From the standpoint of energy security, initiatives are needed to lower this dependence.



Idemitsu aims to raise interest in environmental issues, spur the development of Japan's natural resources from the viewpoint of ensuring energy security, and attain new sources of revenue. As an electric power business utilizing renewable energy,* we develop and procure new sources of energy and operate electric power supply and retail businesses through subsidiaries. Applying the long-term perspective unique to an energy company, we are ascertain-

ing the competitiveness and future prospects of each type of energy and working to capitalize on them.

* Solar, wind, hydro, geothermal, biomass and other forms of renewable energy can be sustainably used without exhaust and are eco-friendly in that they mostly do not emit CO₂, a source of global warming, when consumed. We introduce our development efforts in geothermal power, a powerful element in resource development, on page 24.

Renewable Energy Business (Wind, Biomass, and Solar Power)

► Wind Power

Wind power is limited by wind conditions, its esthetic impact on the surrounding scenery, the noise it generates and other such factors. However, it is relatively inexpensive compared with other forms of renewable energy and is highly efficient—a single wind turbine can operate for 20 to 30 years. In collaboration with Japan Wind Development Co., Ltd., a wind power development and operation company, Idemitsu operates Japan's first wind power station equipped with storage batteries in Rokkasho-Mura, Kamikita-Gun, Aomori Prefecture. Idemitsu Green Power Co., Ltd. couples the eco-friendly energy produced there with energy produced by hydro and biomass power and delivers it to customers.

► Wood-Fueled Biomass Power

This is a way to produce electricity using renewable, plant-derived organic resources (biomass), including grass and wood, as fuel. In Kochi Prefecture, which, at 84% woodland, is the most forested prefecture in Japan, we established Tosa Green Power Co., Ltd. as a joint venture with Tosaden Kotsu Co., Ltd. and Kochiken Shinrinkumiai Rengokai in January 2013. The Tosa Power Station

commenced operations in April 2015. Incorporating chipping and drying facilities, the station is Japan's first stand-alone wood-fueled biomass power station. Moreover, it exclusively uses forest residue (waste wood) resulting from local thinning operations, a practice indispensable to the healthy growth of forests. The station will supply enough energy to meet the average usage needs of 11,000 households. In November 2014, we acquired a 10% stake in Fukui Green Power Co., Ltd., which plans to launch a wood-fueled biomass power business in Ono City, Fukui Prefecture. Operations are slated to commence in spring 2016.

► Solar Power

Idemitsu is actively engaged in the mega solar power business on tracts of idle Company-owned land with good sun exposure. We commenced operations at the Moji Power Station in November 2013, the Himeji Power Station in March 2014, and the Onahama Power Station in November 2014. Expansion work was completed at the Moji Power Station in August 2015. These three power stations produce enough electricity to meet the average usage needs of around 5,800 households.



Rokkasho-Mura Futamata Wind Farm
(photo provided by Japan Wind Development Co., Ltd.)



Tosa Green Power's Tosa Power Station



The Onahama Power Station

Our Businesses

Overseas Fuel Oil Business Initiatives

Expanding Our Network along the Asia Pacific Rim



The construction site of the Nghi Son Refinery and Petrochemical Complex, where every safety precaution is being taken

The development of overseas businesses is a pillar of our growth strategy on par with strengthening the competitiveness of our domestic supply and sales system. Capturing a portion of the now rapidly expanding demand in economies worldwide, especially in

Asia, is particularly key to our success. While promoting overseas businesses is indispensable to our growth strategy, we believe it is important that our efforts contribute to the development of the local region as well as Japan's energy security.

Joint Ventures with Vietnamese and Kuwaiti Companies

In 2008, Idemitsu partnered with Vietnam Oil and Gas Group (Petrovietnam), Kuwait Petroleum International Ltd, and Mitsui Chemicals, Inc. to establish the joint venture Nghi Son Refinery and Petrochemical (NSRP) LLC, Vietnam's second refinery. This is one of Vietnam's largest industrial projects. NSRP's greatest responsibility to society is reliably providing high-quality products to meet growing demand for petroleum products within the country and thereby contributing to the development of the Vietnamese economy. Moreover, we aim to extend NSRP's business to a competitive position throughout the entire global energy market.

This refinery processes oil supplied by Kuwait Petroleum Corporation (KPC). It has an atmospheric distillation unit with a 200 thousand barrel daily throughput, a heavy oil fluid catalytic cracking unit, and petrochemical production units. The final

decision to invest in NSRP was reached in June 2013 and full-scale design and construction work began in July of that year. With an eye to completing the complex in 2016, we are currently constructing refineries and port facilities. In addition, Idemitsu is hiring and training local staff and have dispatched a large number of personnel from Japan to provide technical support for construction efforts and operations. As for the construction and operation of the refineries, our top priority is to ensure health, safety, security, and the environment (HSSE) integrity, and we are focusing efforts on training staff and fostering a corporate culture to maintain that priority.

In addition to NSRP's oil refining business we are considering expanding business within Vietnam, including the sale of petroleum products.



Storage tanks under construction



Spherical tanks under construction



Boilers being loaded onto a ship

Responding to Social Issues through the Overseas Fuel Oil Business

1. Around the world, energy demand is rapidly expanding as economies and populations grow. Seeking out opportunities for growth, we are establishing mutually beneficial relationships and participating in large-scale refinery construction projects to help spur further development.
2. We help ensure a stable supply of energy for each country by adjusting trading functions to accommodate differing supply and demand balances. In Japan, overall energy demand is expected to decrease. To secure the country's position in the energy market, we need to support its energy procurement capability through initiatives in neighboring countries.



● Building up Singapore as a Base in the Asia Pacific Rim

With its base of operations in Singapore, Idemitsu International (Asia) Pte. Ltd. (Idemitsu Asia) trades crude oil and petroleum products throughout the Asia Pacific Rim in addition to developing new businesses. Since April 2014, we have further strengthened Idemitsu Asia's authority and function by transferring our gasoline and diesel oil trading operations from Tokyo to Singapore. We are continuing to construct a global value chain linking refineries and

petrochemical plants in Japan with sales channels on the U.S. West Coast and in Australia. Singapore, which boasts one of the world's largest concentrations of petroleum product manufacturing and is a major clearinghouse for market information, will be the base from which we expand trade and develop businesses throughout the Asia Pacific Rim, including Indochina and Australia.

● Expanding Our Sales and Procurement Networks in the Americas

In June 2010, Idemitsu Apollo Corporation took over the wholesale petroleum products business on the U.S. west coast from California-based New West Petroleum, Inc. The company receives supplies of gasoline and diesel oil from oil refining companies, transporting it by pipeline to inland transport facilities and selling racks*1 to rack jobbers and retailers.

Furthermore, we are expanding the sales network and have boosted current annual sales volume 1.6 times since the time of purchase to around 3.5 million kiloliters. We began wholesaling in Canada and Alaska and selling imports of petroleum products from the Far East to the United States, Canada, Central and South America.

*1. A rack refers to a form in which petroleum is traded. A barge is another form.

● Securing a Fuel Oil Sales Base in Australia

In December 2012, Idemitsu acquired all the shares of Freedom Energy Holdings Pty Ltd, an independent fuel oil sales company in Brisbane, Queensland, basing its decision on the strong prospects for growth in the local market for fuel oil. In addition to importing fuel oil that it sells both directly and through wholesalers, Freedom Energy operates around 40 service stations with an annual sales volume of approximately 850 thousand kiloliters. We have been working to enhance Group synergy in Australia and, in October 2013, began providing fuel oil to mines that the Idemitsu Group owns interests in.



The Brisbane terminal used by Freedom Fuels



A Freedom Fuels gas station in Indooroopilly

Our Businesses

Resource Business Initiatives

Enhancing Our Portfolio and Building a Value Chain



Oil field development in Vietnam

As we expand the resource businesses, we will continue to focus on building a value chain encompassing production,

logistics and sales, not only to secure interests in resources but also to reinforce the stability of supply.

Importing North American Natural Gas

Idemitsu has added gas businesses to its portfolio, aiming to turn them into pillars of profit. Astomas Energy Corporation, a company in the Idemitsu Group playing a key role in these efforts, is one of the world's largest LPG-specialized suppliers and already handles all aspects of business, from importing to selling.

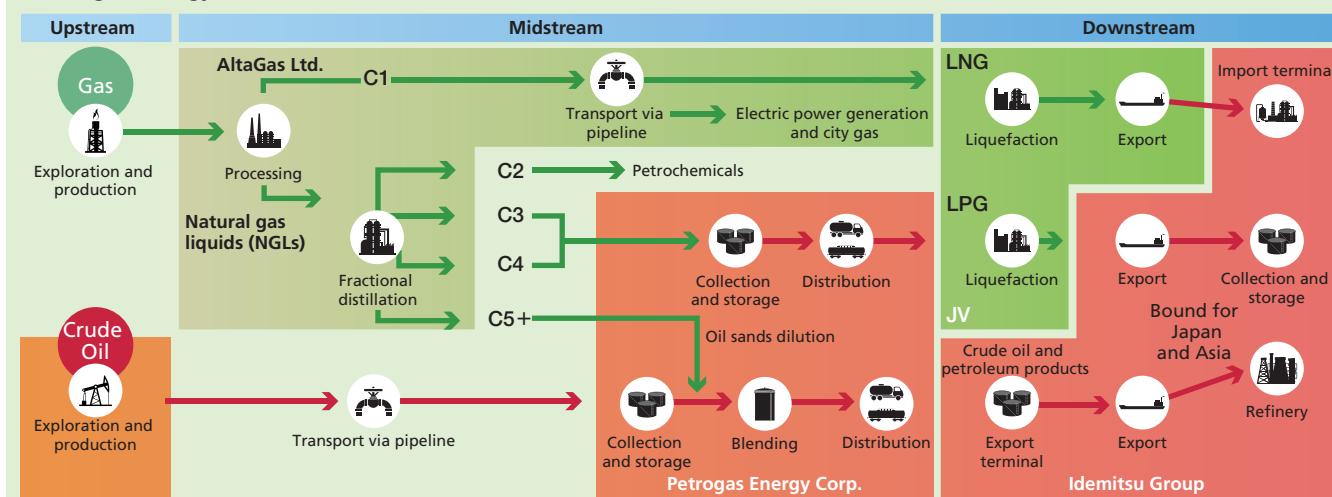
We are earnestly moving ahead with plans to transport natural gas procured on the market to the West Coast via the AltaGas pipeline—at present the only pipeline in North America connecting areas east of the Rocky Mountains to the West Coast—for liquefaction and subsequent export to Japan and elsewhere in Asia.

Moreover, Idemitsu and AltaGas have jointly acquired two-thirds of all outstanding shares of Petrogas Energy Corp., a major energy company engaged mainly in the marketing, logistics, storage and transportation of natural gas liquids (NGL), LPG and crude oil,

primarily in Western Canada and the United States. Petrogas Energy itself acquired an LPG export base in Washington State in May 2014. As a result of these acquisitions we now possess AltaGas's LPG production facilities, Petrogas Energy's collection, storage and logistics facilities, including freight railcars, and the Idemitsu Group's sales network united under one banner. This enabled us to initiate LPG exports to Japan from North America in August 2014, a full two years ahead of schedule.

Demand for LNG and LPG is expected to continue rising, especially in Asia. Incorporating these energy sources into our business portfolio is crucial for Idemitsu's growth and will help ensure Japan's energy security by diversifying supply sources and increasing cost-competitive supplies.

Building an Energy Value Chain in North America



Responding to Social Issues through the Resource Businesses

1. By acquiring interests overseas, we work to secure stable energy resources and swiftly achieve an optimal energy mix.
2. We are not only acquiring interests but also building a robust value chain encompassing production, logistics and sales, ensuring stable supply.



● Securing Interests in Oil Fields in the North Sea and Offshore Vietnam

Idemitsu has promoted oil and gas exploration, development and production projects in Norway, the United Kingdom and Southeast Asian countries, especially Vietnam. Idemitsu is currently producing around 29 thousand barrels per day.

In the Norwegian North Sea, our exploration and production activities began in 1989, and today we produce oil and gas at eight oil fields, including Snorre and Fram, and one gas field. After years of concerted effort and consistent performance, in 2005 we obtained qualification as an operator, which enabled us to take the lead in exploration. In 2009, we acquired a U.K. company

holding considerable interests in the U.K. North Sea and now produce oil at 10 oil fields in the region. We produce oil at one field in Vietnam and, in 2004, acquired blocks in that country as an operator and began promoting oil exploration.

As for new oil field development, commercial production commenced at the Norwegian H-Nord Field in September 2014 and at the Knarr Field in March 2015 with the aim of achieving production of 39 thousand barrels per day in 2015. Going forward, we will continue working on expanding oil and gas production while securing new reserves from the medium- to long-term perspective.

● ● ● Securing Diverse Energy Resources

● Coal Mines Demand for coal, relatively inexpensive and found in regions with low geopolitical risk, is expected to continue to grow, especially in Asia.

Idemitsu currently owns interests in four Australian coal mines: Boggabri, Ensham, Muswellbrook and Tarrawonga. We expect production from the four mines to amount to 11 million tons in 2015. Although the coal we produce is sold mainly in Japan, Taiwan, Korea and other parts of East Asia, we also supply customers in India and Southeast Asian countries. We market the coal produced at these mines mainly in such East Asian countries as Japan, Taiwan and Korea in addition to promoting sales in India and Southeast Asia.

To meet growing demand for inexpensive low-ash, low-sulfur coal for use in coal fired power stations, we have acquired a 30% share of a coal company holding interest in the Malinau Mines in Indonesia. We are also strengthening relations with customers and reshuffling our coal asset portfolio by transferring part of our interest in the Boggabri Mine to Japanese electric power and steel companies—our principal trading partners.

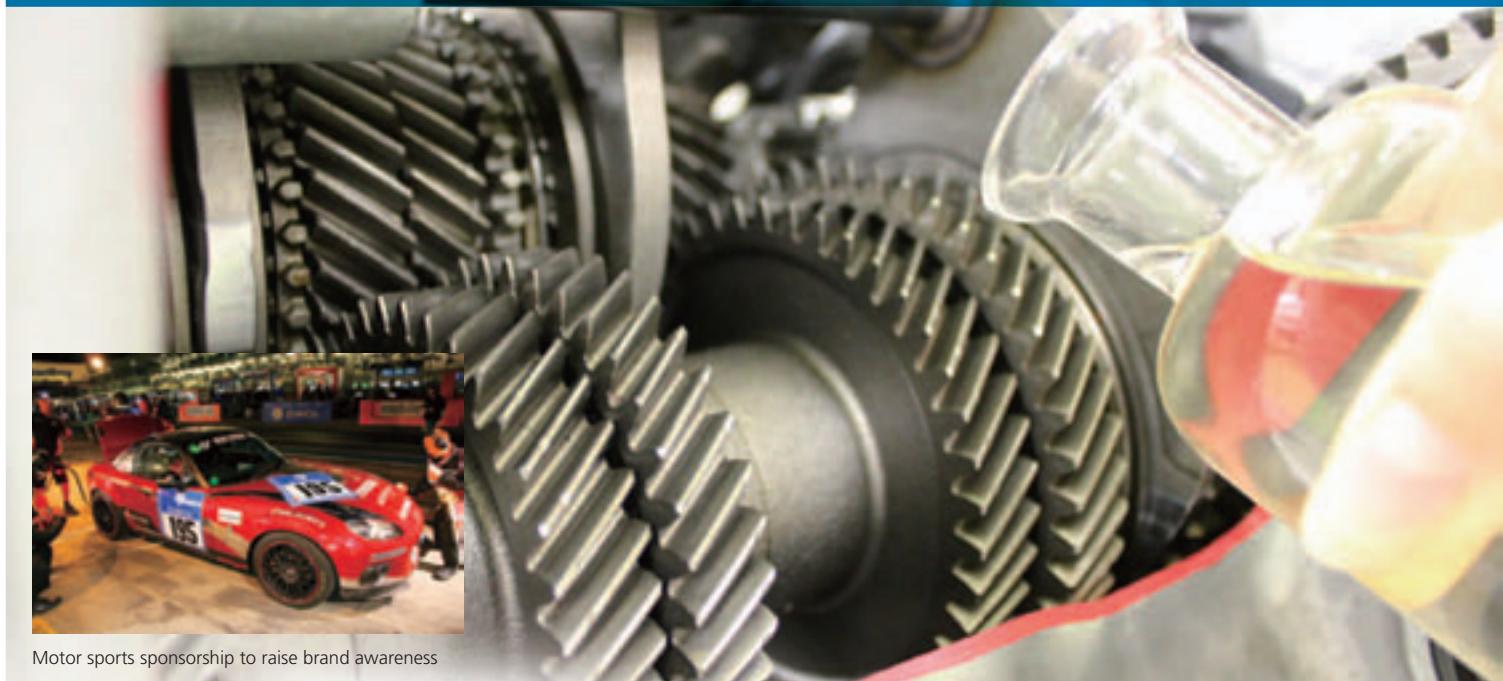
● Uranium Mine Idemitsu is the only Japanese oil wholesaler producing uranium concentrates. We currently own an 8% interest in Canada's Cigar Lake uranium mine. The mine boasts the world's fifth largest reserves and is the first in terms of grade. The mine commenced production in 2014. When the mine reaches full production, it will be the world's second largest uranium mine.

● Geothermal Exploration Idemitsu established Idemitsu Oita Geothermal Co., Ltd. and has been providing geothermal steam to Kyushu Electric Power Co., Inc.'s Takigami Power Plant in the Takigami district of Oita Prefecture since 1996. This plant has a high utilization rate averaging over 90%. We have also decided to construct on-site a binary cycle power station to utilize waste hot water. With the aim of expanding business, we have been conducting drilling surveys for structural test wells in the Amemasadake district of Hokkaido Prefecture and the Oyasu district of Akita Prefecture.

Our Businesses

Functional Materials Business Initiatives

Globally Expanding the Reach of Our Proprietary Technology



Motor sports sponsorship to raise brand awareness

We are expanding our functional materials businesses, including lubricants, performance chemicals, electronic materials and agricultural biotechnology, all of which have grown out of and, in turn, contributed to the development

of our core technologies. In the functional materials businesses, we aim to globally develop product ranges using our proprietary technology while setting each business on a growth track.

The Rapidly Globalizing Lubricant Business

Idemitsu is developing eco-friendly motor oil that reduces CO₂ emissions through better fuel economy and high-performance industrial oils adapted to technological innovations in manufacturing. At the Lubricants Research Laboratory, more than 100 researchers work in collaboration with both internal and external research institutions, each year developing hundreds of distinct products to meet exacting customer needs.

As for our worldwide expansion, we have already set up a structure boasting 30 manufacturing bases in 24 countries that is capable of

supplying products of the same consistently high quality on a global basis. This structure can provide a level of support overseas consistent with what we offer in Japan. As for sales bases, in fiscal 2014, we established a new base in Beijing, which is one of China's largest centers of automobile production. Along with the head office in Tianjin, branches in Shanghai and Guangzhou, and sales offices in Changchun and Chongqing, this constitutes our sixth base in China. As of March 31, 2015, we had 37 sales bases worldwide in 23 countries with a sales staff of around 400.

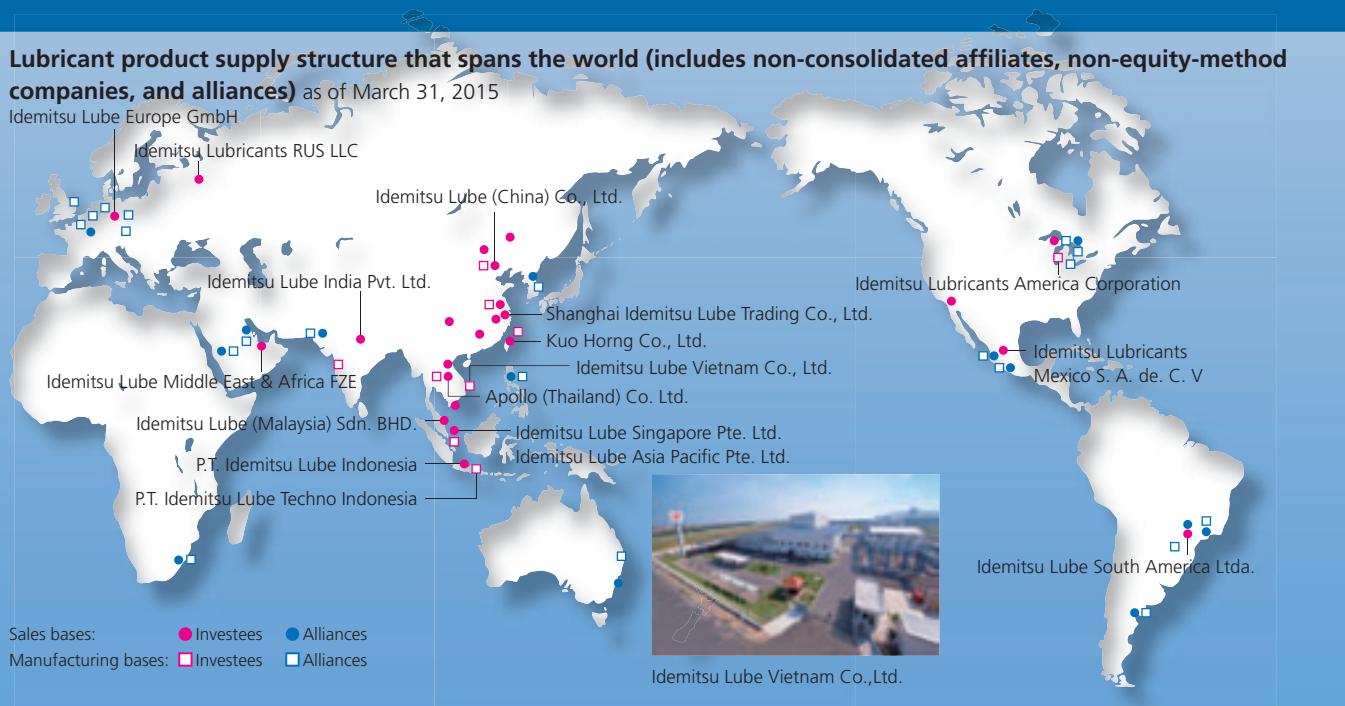


Local staff in training



Responding to Social Issues through the Functional Materials Business

1. We are urgently applying advanced technical skills developed in Japan to enhance our global competitiveness.
2. The key to creating high added value lies in providing solutions that not only meet customer needs but also help solve social issues.



Reconstructing the Foundation of the Petrochemical Business (the Basic Chemical and Performance Chemical Businesses)

In the basic chemicals business, we remodeled the Tokuyama Complex's offshore mooring structure, which is currently used by VLCCs, to enable the docking of large naphtha carriers. We also worked to rationalize distribution by shifting to larger shipping lots for naphtha imports. The aim of these efforts is to ensure the stability of the Tokuyama Complex's supply of competitive olefins to other companies in the Shunan Industrial Complex. In addition, we enhanced the Tokuyama Complex's function as a logistics center for chemical products by refurbishing decommissioned crude oil tanks to handle chemical products, especially methanol. Looking ahead, we aim to optimize the supply chain for olefins, including derivative products, and plan to enhance cost competitiveness by leveraging the strengths of petrochemical complexes, which use naphtha and other products as raw materials.

The Idemitsu Group's performance chemical business follows a global B-to-B model. To respond to the globalization of markets we have established a production structure that provides stable supplies of materials for the production of automobiles as well as electrical, electronic, information and OA equipment in Japan, Europe, the United States and Asia. In the engineering plastic business, we moved production of all-purpose grade polycarbonate resin to the plant of our Taiwanese joint-venture partner to raise our cost competitiveness. With regard to our syndiotactic polystyrene resins, which boast excellent heat resistance and other properties, we supply base resins produced at the Chiba Petrochemical Plant to plants throughout our global production structure for use in the creation of high added-value compounds. We are working to expand sales of these compounds by developing automotive electronic and kitchen appliance applications.

Globalization Continues in the Electronic Material and Agricultural Biotechnology Businesses

In the OLED business, the main field of the electronic material business, we concluded an agreement with LG Display Co., Ltd. covering licensing of patents related to OLED devices and forming a strategic OLED technology alliance to accelerate the commercialization of the OLED display panel business.

In the agricultural biotechnology business, Idemitsu and SDS Biotech K.K., a consolidated subsidiary, hold one-third of Japan's

market share for biological pesticides. We are maximizing synergies with our affiliates and subsidiaries, including SDS's agricultural chemical manufacture and sales subsidiary in India, to expand business in the booming Asian market. We are also making preparations for our global expansion into the field of animal husbandry.



Our ESG Information

Corporate Governance

Since its founding, Idemitsu has consistently maintained the utmost respect for people and has worked diligently to be a socially respected and highly trusted company. With this aim in mind, the Company recognizes the importance of maintaining positive relationships with all stakeholders, including customers, shareholders, business partners, local communities and employees, by fulfilling its social responsibility as a good corporate citizen, improving management transparency and promoting sound and sustainable growth.

Outline of the Corporate Governance Structure

Idemitsu has adopted the structure of a company with an audit & supervisory board, established a robust corporate governance system and continues to engage in activities aimed at improving its capabilities in this area. The Board of Directors consists primarily of directors who are conversant with the Company's businesses from the viewpoint of improvements in management efficiency. To ensure that objective perspectives are taken into account by management, the Company has appointed two outside directors (independent officers) to the Board since the 99th Ordinary General Meeting of Shareholders on June 26, 2014.

The Board of Directors is presently composed of 10 members, including the Representative Director & Chief Executive Officer. The functions of the Board include decision making with regard to management matters as well as managing and supervising business execution. Each member's term lasts one year, and elections are held every year at the General Meeting of Shareholders. The Board of Directors meets once a month in principle to decide important matters and oversee the execution of operations. In fiscal 2014, the Board of Directors met 15 times.

Idemitsu has appointed executive officers to make the execution of operations more efficient. Executive officers are appointed by the Board of Directors and have authority over and responsibility for business execution of the multiple operating divisions which they control or supervise.

Idemitsu appointed independent Audit & Supervisory Board members as a way to oversee management. Of the five Audit & Supervisory Board members, three are outside members and there is a system in place to allow them to carry out their function of external oversight of management. Meetings of the Audit & Supervisory Board are held once a month in principle. At these meetings, the board strives to share issues and information among the Audit & Supervisory Board members and requests information from the directors and operating divisions as necessary in order to improve the level of oversight. In fiscal 2014, the Audit & Supervisory Board met 16 times.

Officer Remuneration

Remuneration for directors was set at no more than ¥1.2 billion annually at the 91st Ordinary General Meeting of Shareholders on June 27, 2006. The representative director delegated by the Board of Directors set this amount in consideration of the report submitted by the Director Remuneration Advisory Committee, which comprises four members, including two outside Audit & Supervisory Board members. Remuneration for fiscal 2014 amounted to ¥765 million for 20 individuals, including outside directors and Audit & Supervisory Board members. Outside of basic remuneration, the Company provides no stock options, bonuses, employee salaries, retirement allowances or other forms of remuneration.

Management Committee and Other Committees and Headquarters

Idemitsu established the Management Committee to discuss and consider management strategies and issues for the Group as a whole and for each operating division. Furthermore, the Risk Management Committee and the Compliance Committee were established as subordinate organs to the Management Committee.

Idemitsu has also established the Committee for the Evaluation of Internal Controls over Financial Reporting, which considers and deliberates on items concerning annual preparations, operating policies and evaluation plans, as well as decisions on the scope of evaluations.

The Company has established the Safety & Environmental Protection Headquarters, which plans basic policies and important matters related to environmental management and ensures safety and security in the

Corporate Governance Structure Check List

Type of governance structure:	Company with an Audit & Supervisory Board
Number of executives set in the Company's Articles of Incorporation	20, at most
Length of term set in the Company's Articles of Incorporation	1 year
Head of Board of Directors	Representative Director & CEO
Number of directors	10
Outside directors appointed or not	Appointed
Number of outside directors	2
Number of independent officers among the outside directors	2
Audit & Supervisory Board established	Yes
Number of Audit & Supervisory Board members set in the Company's Articles of Incorporation	6, at most
Number of Audit & Supervisory Board members	5
Outside Audit & Supervisory Board members appointed or not	Appointed
Number of outside Audit & Supervisory Board members	3
Number of independent officers among the outside Audit & Supervisory Board members	3

business operations of Idemitsu and the Idemitsu Group. The Company has also established the Quality Assurance Headquarters that plans basic policies and important matters related to quality assurance for Idemitsu and the Idemitsu Group.

The Management Committee meets twice a month in principle and operates with the Representative Director & Chief Executive Officer as its committee chairman and with the Corporate Planning Department as its secretariat.

The chair of each committee and the head of each headquarters, with the exception of the Management Committee, is in principle a director other than the Representative Director & Chief Executive Officer and plays a cross-divisional role as part of Company-wide internal controls in order to implement effective operations of committees.

Advisory Committees

In order to maintain the transparency and soundness of the management, the Company has established the following two committees consisting of external experts as advisory organs to the Board of Directors. Both committees listen closely to frank opinions from the perspective of third parties and reflect these opinions in recommendations to the management.

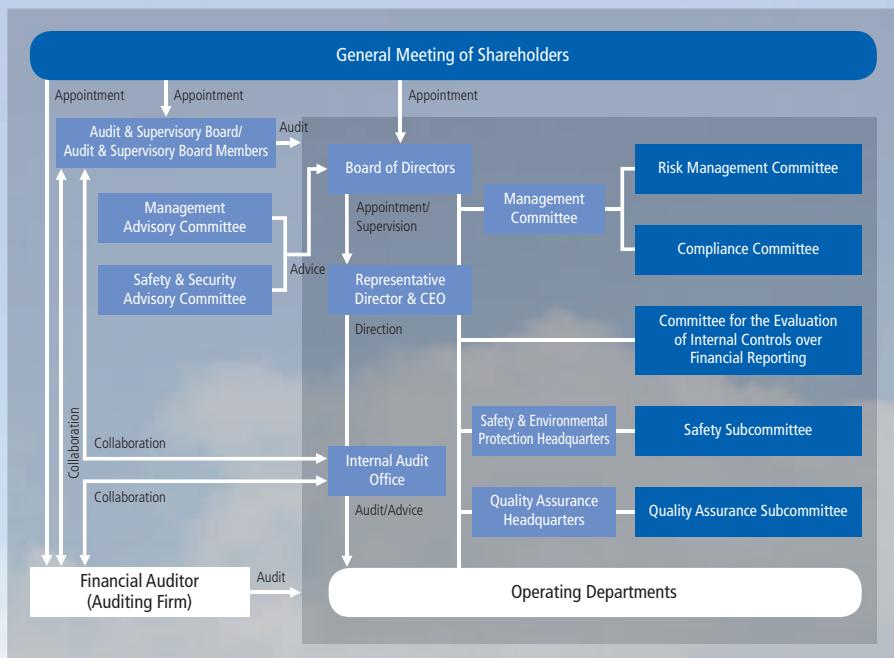
Management Advisory Committee

The Management Advisory Committee is an advisory organ that discusses issues related to management policies from various viewpoints, including management, technological innovation and environmental management. The committee, which meets once every half-year period in principle, engages five external advisers who express their opinions and provide advice.

Safety & Security Advisory Committee

The committee, which was launched in December 2003, receives valuable independent guidance and advice on strengthening safety and security matters concerning the prevention of large-scale disasters at refineries, petrochemical plants and complexes, especially with regard to matters of a technical nature. Due mainly to recent changes in the business environment, it is becoming increasingly important to ensure safety and security for business expansion, including the establishment of new businesses and overseas development. The committee has therefore established a working group inside the Safety & Environmental Protection Headquarters. This working group is charged with identifying the themes best suited for furthering current business development, promoting said themes, and obtaining relevant management recommendations from external experts.

Corporate Governance Structure



In fiscal 2014, the working group solicited recommendations on maintaining and strengthening on-site safety and security capabilities.

Management Supervision Mechanisms

The mechanism to monitor management encompasses supervision by the Board of Directors, auditing by Audit & Supervisory Board members and accounting audits by accounting auditors. In support of these, the Company has established an Internal Audit Office made up of specialist staff, which remains independent of the divisions and is under the direct control of the Representative Director & Chief Executive Officer. This office conducts internal audits based on the Internal Audit Regulations and the evaluation of internal controls based on the Regulations for Internal Control over Financial Reporting.

Internal Auditing

The Internal Audit Office periodically audits and confirms the legality of the business operations, the status of risk management and the business execution of each division based

Outline of Major Committees and Headquarters

Risk Management Committee

Chairman	Members	Secretariat
Managing Director	General managers of the Public Relations & CSR Affairs Office; Corporate Planning Department; Safety, Environment & Quality Assurance Department; General Affairs Department, Human Resources Department; Treasury Department; and Manufacturing & Technology Department	The Risk Management Group within the General Affairs Department
Basic Policy		Activities
Idemitsu strives to identify and evaluate risks associated with the Idemitsu Group's business activities and to eliminate or minimize these risks to the greatest extent possible to ensure stable management.		• The committee identifies serious risks common to the Group and conducts quarterly management reviews of progress on countermeasures for those risks. The committee also reviews serious risk themes periodically or when necessary.

Compliance Committee

Chairman	Members	Secretariat
Managing Director	General managers of the Public Relations & CSR Affairs Office; Corporate Planning Department; Safety, Environment & Quality Assurance Department; General Affairs Department, Human Resources Department; Treasury Department; and Manufacturing & Technology Department	The Risk Management Group within the General Affairs Department
Basic Policy		Activities
Based on its management philosophy, Idemitsu considers compliance a social responsibility and rigorously implements compliance within the Company.		• The Compliance Committee convenes on a quarterly basis jointly with the Risk Management Committee and conducts thoroughgoing reviews of compliance policies and compliance items. • We have assigned compliance promotion general managers (general managers for each department, refinery, petrochemical plant, etc.) and compliance promotion deputy managers (deputy managers for each department, refinery, petrochemical plant, etc.) and staff to each business site.

Safety & Environmental Protection Headquarters

Head	Members	Secretariat
Director in charge of safety and security	General manager of the Safety, Environment & Quality Assurance Department (deputy-head) and general managers of each relevant department in charge	The Safety & Environmental Management Section of the Safety, Environment & Quality Assurance Department
Basic Policy		Activities
The assurance of security and safety is the result of management efforts. We are aware that realizing zero accidents and disasters must be the foremost goal of management and we place the highest priority on assuring the safety of people and the security of facilities and processes.		• Each fiscal year, the Safety & Environmental Protection Headquarters outlines basic policies and important items related to safety and the environment for the Group. The business divisions in charge each implement PDCA cycles in accordance with these policies. The Safety & Environmental Protection Council is convened annually in principle and reviews the Group's progress. • Each business site appoints a deputy safety manager and deputy environmental conservation manager. • Once a year, the head of the Safety & Environmental Protection Headquarters tours the work sites of refineries and petrochemical plants and complexes to provide safety and environmental instructions and the headquarters' secretariat implements safety and environment-related audits. Other business sites implement safety and environment-related audits once every three years.

Quality Assurance Headquarters

Head	Members	Secretariat
Managing Director	General manager of the Safety, Environment & Quality Assurance Department (deputy-head) and general managers of business divisions related to product quality	The Quality Assurance Section of the Safety, Environment & Quality Assurance Department
Basic Policy		Activities
To ensure safe, high-quality products and services matched to the demands of customers, Idemitsu smoothly undertakes quality assurance activities and thorough assurance of product safety.		• The Quality Assurance Headquarters outlines basic policies and important items related to quality assurance for the Group each fiscal year. Each relevant business division in charge implements PDCA cycles in accordance with these policies. The Quality Assurance Council is convened annually in principle and reviews the Group's progress. • Idemitsu established the Quality Assurance Subcommittee organized by the quality assurance deputy manager of each business division related to product quality under the Quality Assurance Headquarters. The Quality Assurance Subcommittee works to maintain and continuously improve the level of quality assurance.

Our ESG Information

Corporate Governance

mainly on their self-directed internal auditing in accordance with the Self-control Regulations.

The results of the internal audits are reported to the Representative Director & Chief Executive Officer, the director in charge of the relevant division or business area and Audit & Supervisory Board members. If necessary, the Representative Director & Chief Executive Officer or the director in charge gives instructions to the division in question.

Any division that receives advice or recommendations in the course of an internal audit prepares a remediation plan for submission to the general manager of the Internal Audit Office and undertakes improvements.

The Internal Audit Office then conducts follow-up audits as needed.

Evaluation of Internal Controls over Financial Reporting

The Internal Audit Office evaluates and confirms the preparation and implementation of internal controls in each division based on the Regulations for Internal Controls over Financial Reporting in order to ensure the reliability of financial reporting for the Group as a whole. Each division prepares a remediation plan to address any shortcomings discovered during the evaluation and undertakes improvements. Each division submits improvement plans and the results of executed plans to the general manager of the Internal Audit Office. The Internal Audit Office reevaluates plans based on results to gauge progress. The results are analyzed and discussed by the Committee for the Evaluation of Internal Controls over Financial Reporting, confirmed by the Representative Director & Chief Executive Officer, and finally submitted to the Audit & Supervisory Board members.

Auditing by Audit & Supervisory Board Members

All of the Company's five Audit & Supervisory Board members attend board meetings and conduct audits of the business reports, non-consolidated financial statements and consolidated financial statements presented at the General Meeting of Shareholders and of the day-to-day execution of the duties of the directors. Standing Audit & Supervisory Board members attend important internal meetings, including meetings of the Management Committee, and execute their auditing duties by interviewing general managers, overseas business office managers and the presidents of subsidiaries. Non-standing Audit & Supervisory Board members carry out audits by visiting major

departments and branches. Meetings are held between Audit & Supervisory Board members and representative directors on a quarterly basis in principle. These meetings serve as a forum for raising and deliberating on pertinent issues.

Responses to Important Matters (Materiality) in Non-Financial Fields

To ensure secure supplies and safe operations, the Idemitsu Group identifies major stakeholders at each stage of the value chain and carries out activities to lower potential risks.

Ensuring Sustainable Energy Security through the Reconstruction of the Fuel Oil Business and the Cross-Sales Strategy of the Resource Businesses

To maintain sustainable supplies of energy and raw materials amid declining domestic demand for petroleum products, the Idemitsu Group is rebuilding its domestic fuel business by strengthening its resilience, and expanding its overseas fuel oil business, focusing mainly on the Asian Pacific Rim. With the domestic and overseas businesses complementing each other, we will be able to secure stable supplies of crude oil, petroleum products and petrochemicals while contributing to the global competitiveness of domestic industries.

We will continue to expand supply sources and develop non-oil primary energy resources, including coal, uranium and geothermal power. We will also commercialize LNG and unconventional forms of natural gas. Through all of these efforts, we will continue to sustainably supply energy to Japan and the rest of Asia. As for secondary energy sources, in addition to supplying electricity generated from fossil fuels as an independent power producer, we will expand our supply of renewable energy from biomass power, solar power, wind power and other sources. Diversifying the raw materials used in our energy portfolio will bolster our energy security.

Environmental Protection and Safety Assurance Are Important when Handling Hazardous Materials throughout the Value Chain

The Idemitsu Group handles hazardous materials throughout its entire value chain from the extraction and procurement of crude oil through

Major Stakeholders, Risks and Precautions in the Value Chain

Stage	Oil extraction		Crude oil procurement		Overseas transport	
Major Stakeholder	Drilling operators and staff	Local residents and community	Oil-producing countries	Tanker crew	Local residents and community	
Risks	<ul style="list-style-type: none"> Injury or death in a fire or explosion 	<ul style="list-style-type: none"> Marine pollution or damage to fishing industry due to an oil spill 	<ul style="list-style-type: none"> Halt in trade due to geopolitical factors Halt in trade due to strained relations 	<ul style="list-style-type: none"> Injury or death in a fire or explosion Takeover of tanker or harm to crew by pirates 	<ul style="list-style-type: none"> Marine pollution or damage to fishing industry due to an oil spill Destruction of the ecosystem by ballast water discharge 	
Precautions	<ul style="list-style-type: none"> Using a Safety, Health and Environment Management System (SHEMS). We also require contractors to use a SHEMS. 		<ul style="list-style-type: none"> Training executive candidates, technical trainees and other staff from oil-producing countries Dispatching experts and participating in other forms of technical cooperation with oil-producing countries Establishing local offices and promoting cross-cultural exchange and dialogue Funding joint ventures with oil-producing countries 	<ul style="list-style-type: none"> Requesting International Safety Management (ISM) Codes* for safe operations. Keeping up to code to prevent marine pollution. Maintaining ballast water processing facilities in the tankers. Conducting On Board Maintenance (OBM) of ballast tanks. Conducting disaster prevention training and periodic safety and environmental education Creating ship safety maintenance plans and implementing appropriate anti-piracy measures 		<small>*International Safety Management (ISM) Code: An international standard incorporated into the International Convention for the Safety of Life at Sea (SOLAS), designed to augment the safety management of ships.</small>

sales. The biggest material risk for the Group is the major impact on business revenue of accidents, including fires, explosions, oil spills and the cross contamination of different grades of oil. Safety assurance, environmental protection and quality control are therefore of the utmost importance.

In the event of an accident at a refinery, petrochemical plant, oil stockpiling yard or oil depot, there is the risk that production will need to be stopped. Not only would this directly impact revenue due to the loss of business opportunities and the cost of restarting equipment, it could also cause long-term damage by diminishing the trust placed in us by the local community and degrading the general public's perception of the Company.

This is especially true since we moved to a framework of three refineries in fiscal 2014. While our capacity utilization has increased, the potential magnitude of impact on our operations of an accident has never been greater. We must therefore be extra diligent in implementing safety measures. When JX Nippon Oil & Energy Corporation suspended crude oil processing at their refinery in Muroran, our Hokkaido Refinery became the sole refinery within the prefecture, significantly increasing the social responsibility we had to bear. Based on this lesson, we will promote extraordinary structural reforms to increase the competitiveness of the refinery while ensuring safe operations and stable supply.

At the same time, if contamination occurs during unloading at a service station or customer site, there is a risk it could lead to an accident affecting the vehicles that received the fuel. Remediating such contamination in order to avoid an accident takes considerable time and money. The Company must recover the fuel, switch out products and clean sales facilities, including underground tanks. Such an occurrence has far-reaching effects on our brand network. For example, customers might be inclined to not refuel their vehicles not only at the service station where the incident occurred but other of our service stations. We are working to prevent accidents that may arise due to faults in equipment, including tanker trucks and service station fuel receiving facilities. We are also working to prevent accidents that may arise from operational missteps by holding training seminars on truck operation management and conducting safety campaigns through the Koun-kai.

Pursuing Business Continuity Plans

In fiscal 2004, the Idemitsu Group formulated Guidelines for Addressing Crises as the topmost of its regulations concerning crisis readiness and undertook a sweeping review of its crisis-level definitions, the system for liaison and instruction, and methods for establishing emergency task forces. At the same time, we implemented a systematic review of various types of regulations concerning crises.

In fiscal 2006, we formulated a Business Continuity Plan (BCP) for the eventuality of an earthquake with an epicenter in the Tokyo metropolitan area and in fiscal 2009 formulated a BCP for the eventuality of an outbreak of a new, more virulent strain of influenza. In fiscal 2013, we formulated a new BCP for a Nankai megathrust earthquake.

At refineries and petrochemical plants, as well as other business sites, we continue to make our equipment more earthquake-resistant and implement periodic crisis drills covering each location's entire site based on various types of crisis response regulations. Additionally, we hold annual comprehensive disaster drills based on various BCPs at the corporate head office and review BCPs based on the results of the drills as part of our efforts to strengthen our practical response capabilities.

Strict Compliance at Each Stage of the Value Chain

Idemitsu considers compliance a social responsibility. We take a broad interpretation, encompassing adherence to not just laws and regulations but also social mores, internal rules, and contracts. We regard this adherence as a matter of utmost importance and rigorously implement compliance within the Company.

Fiscal 2014 Results

- There were no major compliance violations.*
- There were no occurrences of major accidents*
at refineries, petrochemical plants or complexes.
- We had no major product or quality incidents.*

* An accident or a violation deemed to be at the highest danger level as stipulated by Idemitsu's internal regulations

	Refining, production and storage		Logistics in Japan		Sales		
	Local residents and community	Employees, associate operators	Local residents and community	Retail outlets, service stations, customers	Tanker crew	Service station customers	Local residents and community
<ul style="list-style-type: none"> • Injury or death, damage to local infrastructure or obstruction of traffic due to a fire or explosion • Marine pollution or damage to fishing industry due to an oil spill 	<ul style="list-style-type: none"> • Injury or death in a fire or explosion 	<ul style="list-style-type: none"> • Injury or death, damage to local infrastructure or obstruction of traffic due to a fire or explosion from a transport accident • Damage to infrastructure or obstruction of traffic due to a petroleum product leak from a transport accident 	<ul style="list-style-type: none"> • Contamination or overflowing of a reception tank during unloading of a tanker truck 	<ul style="list-style-type: none"> • Injury or death in a fire or explosion 	<ul style="list-style-type: none"> • Trouble arising in a vehicle, stove or other equipment from refueling with inappropriate grade of oil • Petroleum product leak or fire at time of refueling • Diminished trust or damage to individuals resulting from customer information leak 	<ul style="list-style-type: none"> • Contamination of groundwater or rivers, damage to agriculture or damage to fishing industry due to petroleum product leak from an underground tank at a service station 	
<ul style="list-style-type: none"> • Designing failsafe and foolproof equipment • Conducting thorough plant maintenance and operational management • Maintaining local disaster prevention systems and conducting periodic disaster prevention training • Safety and environment-related instructions and safety and environmental audits from the Safety and Environmental Protection Headquarters • Promoting periodic local community gatherings and dialogue • Reinforcing cooperation with local communities through events, volunteering and other activities 	<ul style="list-style-type: none"> • Foolproofing service station fuel receiving equipment and tanker truck equipment • Sharing case examples and response examples through the Koun-kai • Holding training seminars on truck operation management and conducting safety campaigns through the Koun-kai Environment and Safety Council • Raising awareness of risks through the Asahi Tanker Environment and Safety Council • Using both gestures and verbalizations to focus attention • Conducting periodic disaster prevention training and unloading training 	<ul style="list-style-type: none"> • Adjusting the equipment or shutting down fuel flow meter • Simplifying the fuel flow meter display • Sharing case examples and response examples • Distributing illustrated booklets entitled Learn about Service Station Safety Standards to encourage thorough compliance. • Distributing tools and manuals to ensure the comprehensive prevention of leakages in three categories (fuel oils, industrial waste materials and personal information) • Established the Customer Relations Center 	<ul style="list-style-type: none"> • Conducting soil surveys. 				

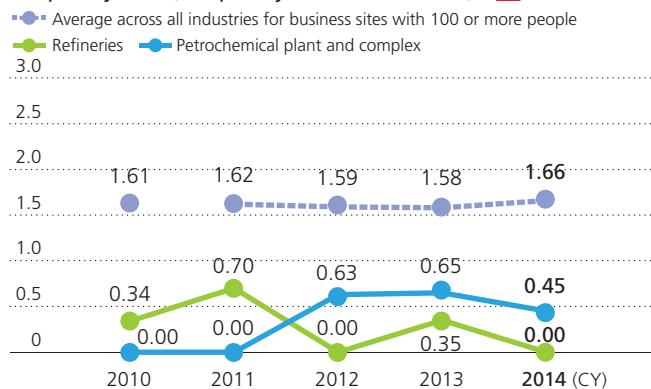
Our ESG Information

Our Main Environment, Society and Governance Initiatives

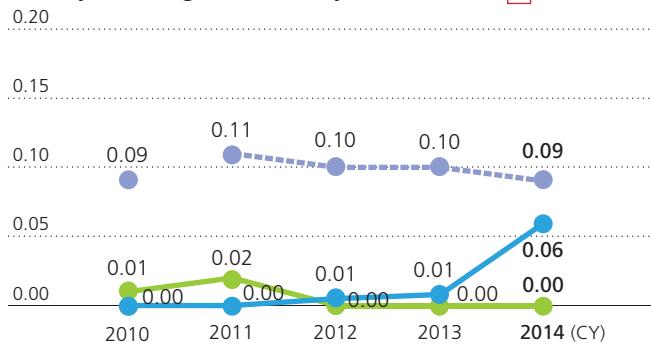
Preventing Industrial Accidents

Idemitsu has established Safety & Environmental Management Sections at each of the business sites where its oil refineries, petrochemical plant, and complex are located. These sections work diligently to prevent accidents, with their own teams as well as affiliate partners undertaking daily safety inspections.

Frequency rate (Frequency rate of accidents)*



Severity rate (Degree of severity of accidents)*



Notes: 1. Outline of the Ministry of Health, Labour and Welfare's survey on industrial accidents (survey on establishments (with 100 or more employees) and survey on general construction). Because the agriculture industry was added to the scope of the survey in fiscal 2011, there is no continuity with the earlier data.
2. Accounting period: January 1, 2014 to December 31, 2014
3. Prime Polymer Co., Ltd.'s Anesaki Works is included in the Chiba petrochemical plant.

* Frequency rates and severity rates:

Frequency rates and severity rates are indicators used by the Ministry of Health, Labour and Welfare and others when assessing the incidence of workplace accidents.

Frequency rate = (Number of casualties from workplace accidents ÷ Cumulative total of labor hours worked) × 1,000,000

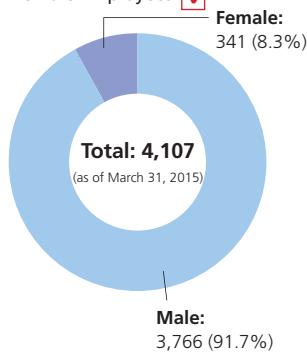
Severity rate = (Number of work days lost ÷ Cumulative total of labor hours worked) × 1,000

Boosting Women's Workforce Participation

The Company had 4,107 total employees as of March 31, 2015, 341 (8.3%) of which were women.

Although our overall percentage of women employees remains relatively low, this is influenced by a business structure centered on a type of manufacturing that entails a large heavy labor force as well as personnel with expertise in specific traditionally male fields. In fact, in our sales, logistics, corporate and other departments the percentage of women surpasses 20%. Going forward, we will continue to fine-tune systems and work environments to facilitate long-term employment regardless of gender.

FY2014 Percentage of Male and Female Employees 



Maternity and Childcare Support for Balancing Work and Personal Life

We help employees balance work with childbearing and childcare needs by offering systems of maternity leave, childcare leave and reduced working hours for parenting. We actively encourage both our male and female employees to use these systems. In addition, we have fostered an office environment that ensures a smooth transition back to work and are considering flexible measures that can meet individual childcare needs.

Number of Employees Taking Maternity, Childcare and Nursing Care Leave and Reduced Working Hours for Parenting (Cumulative Total Number of Persons)

Maternity leave Childcare leave Nursing care leave
Reduced working hours for parenting

Figures in parentheses represent temporary workers* (included in total)



Note: Temporary workers: Limited term employees directly hired by the Idemitsu Group; does not include workers dispatched from other firms.

Environmental Impact of Businesses and Relevant Countermeasures

Stage		Extraction	Import (one way by tanker)	Domestic manufacturing Refinery, petrochemical plant, complex	Domestic transportation (one-way)
INPUTS Resources used		Energy: Equivalent in crude oil: 830 thousand kl	Energy: Equivalent in crude oil: 287 thousand kl	Energy: Equivalent in crude oil: 3,512 thousand kl	Energy: Equivalent in crude oil: 98.2 thousand kl
Environmental protection measures	Air pollution	Installing equipment to prevent air pollution		Installing equipment to prevent air pollution	Installing equipment to recover VOCs
	Global warming		Taking energy-saving measures	Taking energy saving measures at manufacturing sites	Streamlining logistic operations
	Resources consumed				Recycling plastic
	Waste			Reducing and recycling waste	
	Hazardous chemical substances	Installing equipment to recover VOCs		Managing PCBs	Installing equipment to recover VOCs Shifting to floating tank covers
	Ozone layer damage			Managing fluorocarbons	Shifting to CFC-free coolants
	Water contamination			Treating wastewater	
	Soil pollution				Assessing soil pollution and taking countermeasures
OUTPUTS Environmental impact	Marine pollution	Treating industrial wastewater, injecting drilling mud into wells and treating it above ground	Shifting to double-hulled tankers to protect surrounding marine ecosystems		
		CO ₂ SO _x NO _x 1,872 kt 21,917 t 5,894 t	CO ₂ SO _x NO _x 795 kt 14,784 t 22,182 t	CO ₂ SO _x NO _x 7,121 kt 7,967 t 6,392 t	CO ₂ SO _x NO _x 232 t 1,257,684 kt 86 t Total nitrogen (TN) Total phosphorus Final disposal (landfill) 268 kt 3,062 t 3,625 t 2.8 kt Final disposal (landfill) 8 t

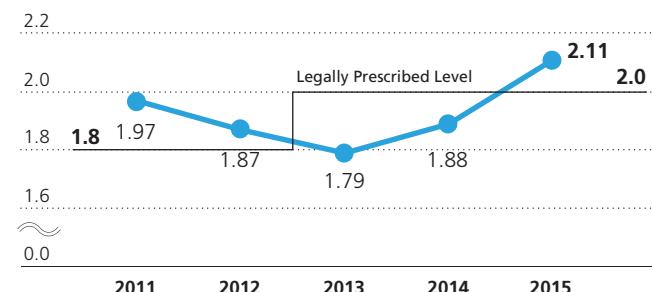
Promoting Employment of Persons with Disabilities

Idemitsu believes that work allows people to achieve personal growth and gain the respect of others. Accordingly, under our philosophy of respect for human beings, we welcome all people to our workplaces, including those with disabilities, with the aim of helping create a society that allows everyone, regardless of their limitations, to provide mutual support and live harmoniously.

In 2011, we launched a cleanliness team at the Training Center in Ichihara City, Chiba Prefecture to take care of the accommodations there, promoting the employment of persons with disabilities. We have since been considering ways to expand the team's workload and diversify its responsibilities. In fiscal 2015, using the greenhouse facilities on the grounds of the Advanced Technology Research Laboratories in Sodegaura, Chiba Prefecture, we formed a greenery department to cultivate flowering plants and other ornamentals, starting with marigolds. The gardening team comprises four persons with disabilities and two supervisors. Together they grow ornamentals and visit neighboring business sites, including the Chiba Refinery, the Chiba Petrochemical Plant and the Advanced Technology Research Laboratories, to prepare flower beds and planters. We named the greenhouse the Idemitsu Dream Farm and are working to endear it to the people in surrounding areas. Looking ahead, we plan to increase the types of plants grown, including fruits and vegetables, on a trial basis and to expand sales of cultivated ornamentals.

In addition, we newly established a back-office support department. This office handles work that we had been outsourcing, including highlighting and applying sticky notes to items needing attention on insurance applications and printing out training materials. In addition to employment for persons with disabilities, this office has yielded cost reductions within the Idemitsu Group and improved overall productivity. We will continue working to foster workplaces where persons with disabilities can enjoy and take pride in their work.

Employment Rate of People with Disabilities



Note: Employment status as of June 1 of each year



The greenery team planting flowers



The greenhouse facility in Sodegaura, Chiba Prefecture

Domestic sales and others	Domestic Consumption						Stage
Energy: 0.8PJ Equivalent in crude oil: 19.7 thousand kl							INPUTS Resources used
							Environmental protection measures
	Using sulfur-free fuels	Using Idemitsu Coal Assessment System and heat-resistant monitoring cameras	Using thermal diagnostics	Using motor oil for automobiles with DPFs	Using lime cake (a desulfurization agent)	Air pollution	
Recycling waste				Using fuel-saving lubricants	Using N ₂ O decomposition catalysts	Global warming	
				Using fuel-saving tires	Recycling plastic containers	Resources consumed	
	Using non-chlorinated cutting oils and Biodegradable hydraulic oils			Using non-aromatic solvents	Using halogen-free resins, sheets, etc.	Hazardous chemical substances	
	Using CFC-free refrigeration lubricants					Ozone layer damage	
Assessing soil pollution and taking countermeasures						Water contamination	
						Soil pollution	
						Marine pollution	
CO ₂ 44 kt		CO ₂ 87,820 kt SO _x 87,588 t					OUTPUTS Environmental impact

Our ESG Information

Supporting Cultural Activities to Give Back to Society

The Mission of the Idemitsu Museum of Arts

The Idemitsu Museum of Arts was established in 1966 to house the collection of founder Sazo Idemitsu (1885–1981). Over its more than 40 years of operation as a public interest incorporated foundation, this Company-supported institution has expanded its collection of works and continues to communicate to visitors the splendor of the beauty and spirit of the East. The collection centers on Japanese works of art, including such national treasures as the Minuyonotomo Album of Exemplary Calligraphy, which features snippets of outstanding compositions from nobility once residing in the imperial palace, and the Ban Dainagon Picture Scrolls, a masterpiece of Japanese painting illustrating the rise and fall of a high-ranking government official during the Heian period. The collection also showcases a wide range of extraordinary art pieces from other parts of the Far East. Through the universal medium of art the museum strives to establish a commonality among the hundreds of thousands of annual visitors and Idemitsu.

The founding philosophy of the art museum is outlined in Sazo Idemitsu's own words: "The most important duties of museums of art are to be constantly diligent in selecting excellent art pieces, to use these pieces to educate the current generation, to carefully preserve the artworks for future generations, and to raise awareness of these splendors." The founder's desire to share this extensive, highly valuable private collection of works—seen as national cultural assets—with the public was bolstered by expert opinions contending that he had a social responsibility to do so. This formed the impetus for the founding of the Idemitsu Museum of Arts.

Due to Sazo Idemitsu's affinity for the work of such commercial artists as ukiyo-e and bunjinga painters, the first Idemitsu collection was somewhat unbalanced when viewed from the perspective of art history. To redress this imbalance, the museum began collecting mostly academic art, including paintings of the Kano school and the Ban Dainagon Picture Scrolls. As the museum collected works to fill out its exhibits in certain fields, it began to establish a unique reputation for displaying orthodox Eastern art in an easy to understand manner.

The Idemitsu collection, an assortment of thoughtfully curated art pieces, possesses a power beyond that of its individual components and retains the taste and spirit of Sazo Idemitsu. One of the



An exhibition room in the Idemitsu Museum of Arts

messages we can take away from the Idemitsu collection is that of tolerance. Tolerance is thought to be a traditional virtue in Japan originating from Buddhism, but recently the concept of tolerance has been losing favor. There seems to be a tendency to instead deny and refute others' beliefs to confirm one's own identity. The museum considers it a duty to directly implant the concept of tolerance into the hearts of its visitors through the works in the Idemitsu collection.

Sazo Idemitsu said that throughout his life he was guided by beauty; that you see art with your eyes, but you see the beauty of people with your heart. He also emphasized that a business must serve its country and its citizens, aim to benefit society, and move forward together with the people. He expressed this philosophy in his book *Making Business an Art*. The Idemitsu Museum of Arts, which has been putting that philosophy into practice through its collection of art, could be thought of as the ultimate embodiment of CSR.



Words of Founder Sazo Idemitsu *Making Business an Art*

True art and true business, with respect to beauty, creativity and effort, are in total alignment and, with respect to dignity and strength, neither one yields. We who endeavor to create beauty believe in making business an art, and championing this cause is a foregone conclusion. Idemitsu's business must be beautiful to everyone who sees it. It must not simply exist for the ugly purpose of making a profit.

Contributing to Music Culture

We contribute to music culture. We are the sole sponsor of the music television program "Daimei no Nai Ongaku-kai," or "Untitled Concert." We have also established the Idemitsu Music Awards to support the activities of up-and-coming musicians.

Celebrating its 50th anniversary in 2014, the "Daimei no Nai Ongaku-kai" classical music program premiered in August 1964 as the "Golden Pop Concert: Daimei no Nai Ongaku-kai." Yutaka Sado, the conductor who served as host of the show for over seven years from April 2008, left the program in September 2015 and Ryu Goto, a globally active violinist based in New York, became the fifth host of the show in October. Goto is the youngest host in the history of the program.

In fiscal 2014, continuing a tradition established in the previous year, we joined with AUN J Classic Orchestra, which is composed of eight traditional Japanese instrument performers, for the ONE ASIA Joint Concert.

At this second concert, AUN J performed with folk instrument performers from Brunei, Vietnam and Myanmar. At the final stop in Myanmar, the folk instrumentalists from Cambodia, Thailand, Indonesia and Vietnam that AUN J performed with on tour last year joined the performance. Featuring traditional instruments from seven countries, including Japan, the concert was a truly uniting event for Asia.

For Idemitsu, the concert was a great opportunity to showcase our support of the development of culture in Southeast Asia, which is a key region for global business development. We aim to continue supporting these kinds of activities.



A performance by AUN J Classic Orchestra in Myanmar

Company Information

Company Profile

Company name	Idemitsu Kosan Co.,Ltd.
Head Office	1-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8321
Representative Director & Chief Executive Officer	Takashi Tsukioka
Establishment	March 30, 1940 (founded June 20, 1911)
Paid-in capital	¥108.6 billion (as of March 31, 2015)
Consolidated net sales	¥4,629.7 billion (FY2014)
Consolidated number of employees	8,829* (as of March 31, 2015)

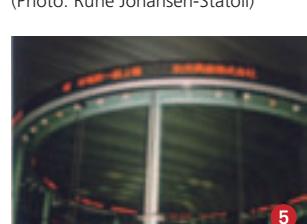
*Excludes temporary workers

Sales office	24
Branch office	7

Refineries	3 (Hokkaido, Chiba, Aichi)
Petrochemical plants	2 (Chiba Plant, Tokuyama Complex) etc.
Oil depots	19 (as of March 31, 2015, including one of Okinawa Idemitsu)
Research laboratories	8
Partners (as of June 30, 2015)	
	Domestic: 52 Overseas: 84 Total: 136
Consolidated	Domestic: 17 Overseas: 51 Total: 68
Equity-method	Domestic: 13 Overseas: 15 Total: 28
Other	Domestic: 22 Overseas: 18 Total: 40

Company History

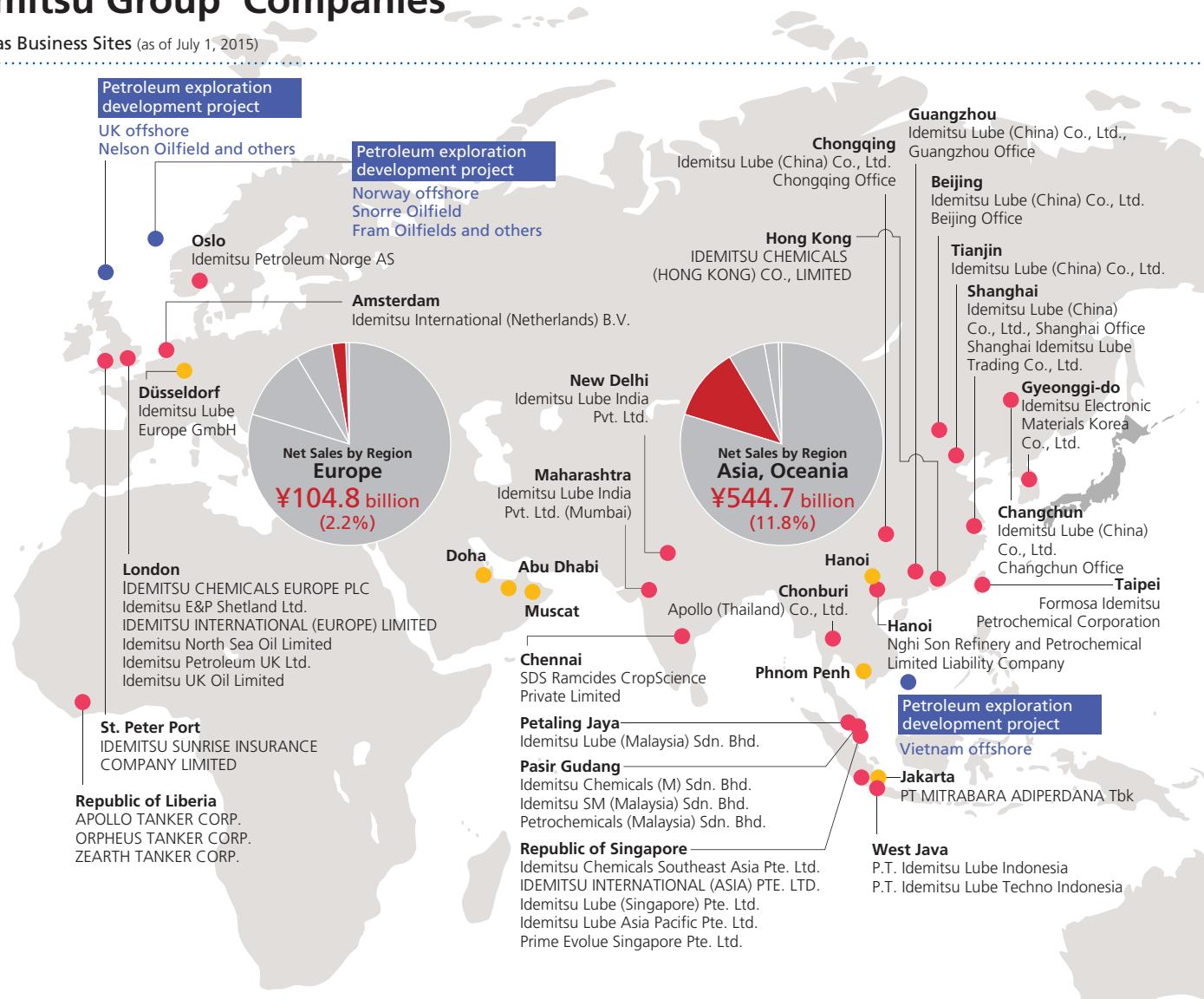
- 1911 Idemitsu Shokai is founded and commences sales of lubricants (machine oil). ①
- 1913 Sales of marine fuel oil for motor fishing vessels commence.
- 1914 Enters the mainland Chinese market, which had been dominated by American and European oil companies. Sales channel are subsequently expanded throughout Asia.
- 1938 Nissho Maru (first generation), an oil products tanker, is commissioned.
- 1945 Idemitsu loses most of its management assets due to Japan's defeat in World War II. Various businesses are launched, including radio repair and sales, printing, agriculture, fishery and fermentation, precluding the need to dismiss any employees. Of these businesses, the most grueling were operations to manually recover leftover oil from the bottom of decommissioned naval oil tanks. ②
- 1947 Idemitsu returns to the oil business as 29 of its outlets across Japan are named retailers for the Oil Distribution Public Corporation. In 1949, Idemitsu is designated as a primary oil distributor.
- 1951 Nissho Maru (second generation) is commissioned and begins importing high-octane gasoline from the United States.
- 1953 Petroleum products are imported from Iran (Nissho Maru Incident).
- 1957 Tokuyama Refinery, Idemitsu's first refinery, is completed and the Company enters the oil refining business.
- 1963 Chiba Refinery, Asia's largest refinery at the time, is completed. By 1975, the Hyogo, Hokkaido and Aichi refineries are completed. ③
- 1964 Idemitsu Petrochemical Co., Ltd. is established and its Tokuyama Plant (now owned by Idemitsu Kosan) is completed. Chiba Plant is completed in 1975.
- 1966 Idemitsu Maru, the world's first 200,000-ton class oil tanker, is commissioned.
- 1973 The Beirut Office (closed in 1975) and the Tehran Office are established.
- 1992 Production begins at the Snorre oilfield in the Norwegian North Sea. ④
- 1994 Production begins at Ensham coal mine in Australia.
- 1996 Operations begin at the Takigami Office, Idemitsu Oita Geothermal Co., Ltd.
- 2006 Stock listed on First Section of the Tokyo Stock Exchange ⑤
- 2013 Final investment decision reached for the Nghi Son refinery and petrochemical complex. Design and construction begins in July.
- 2014 Idemitsu terminated the crude oil refining function of the Tokuyama Refinery (three-refinery framework).



(Photo: Rune Johansen-Statoil)

Idemitsu Group Companies

Overseas Business Sites (as of July 1, 2015)



Idemitsu Group Consolidated Subsidiaries and Equity-Method Companies (as of July 1, 2015)

Petroleum Development (7 companies)

Idemitsu Snorre Oil Development Co., Ltd.
Idemitsu Cuu Long Petroleum Co., Ltd.
Idemitsu Petroleum Norge AS
Idemitsu E&P Shetland Ltd.
Idemitsu Petroleum UK Ltd.
Idemitsu UK Oil Limited
Idemitsu North Sea Oil Limited

Petroleum Product Sales (5 companies)

Idemitsu Retail Marketing Co., Ltd.
S.I. Energy, Ltd.
Idemitsu Supervising Co., Ltd.
Okinawa Idemitsu Co., Ltd.
Apolloretailing Co., Ltd.

Transportation, Storage and Refinery Works (9 companies)

Idemitsu Tanker Co., Ltd.
APOLLO TANKER CORP.
ORPHEUS TANKER CORP.
ZEARHT TANKER CORP.
Idemitsu Plantech Hokkaido Co., Ltd.*
Idemitsu Plantech Chiba Co., Ltd.*
Idemitsu Plantech Aichi Co., Ltd.*
Idemitsu Plantech Tokuyama Co., Ltd.*
Hokkaido Joint Oil Stockpiling Co., Ltd.*

LPG Business (1 company)

Astomas Energy Corporation*

Gas Business (4 companies)

Idemitsu Canada Corporation
Idemitsu Canada Gas Inc.
AltaGas Idemitsu Joint Venture Limited Partnership*
AltaGas Idemitsu Management Inc.*

Overseas Petroleum Business (19 companies)

IDEMITSU INTERNATIONAL (ASIA) PTE. LTD.
IDEMITSU INTERNATIONAL (EUROPE) LIMITED
IDEMITSU APOLLO CORPORATION
Idemitsu International (Netherlands) B.V.
Idemitsu Lubricants America Corporation
Idemitsu Lube Europe GmbH
Idemitsu Lube India Pvt. Ltd.
Idemitsu Lube Asia Pacific Pte. Ltd.
Idemitsu Lube (Malaysia) Sdn. Bhd.
Idemitsu Lube (Singapore) Pte. Ltd.
Idemitsu Lube (China) Co., Ltd.
Shanghai Idemitsu Lube Trading Co., Ltd.
Apollo (Thailand) Co., Ltd.*
P.T. Idemitsu Lube Techno Indonesia
P.T. Idemitsu Lube Indonesia
Nghi Son Refinery and Petrochemical Limited Liability Company
Freedom Energy Holdings Pty Ltd.
Freedom Fuels Australia Pty Ltd.
Freedom Fuels Terminalling Pty Ltd.

Petrochemical Business (16 companies)

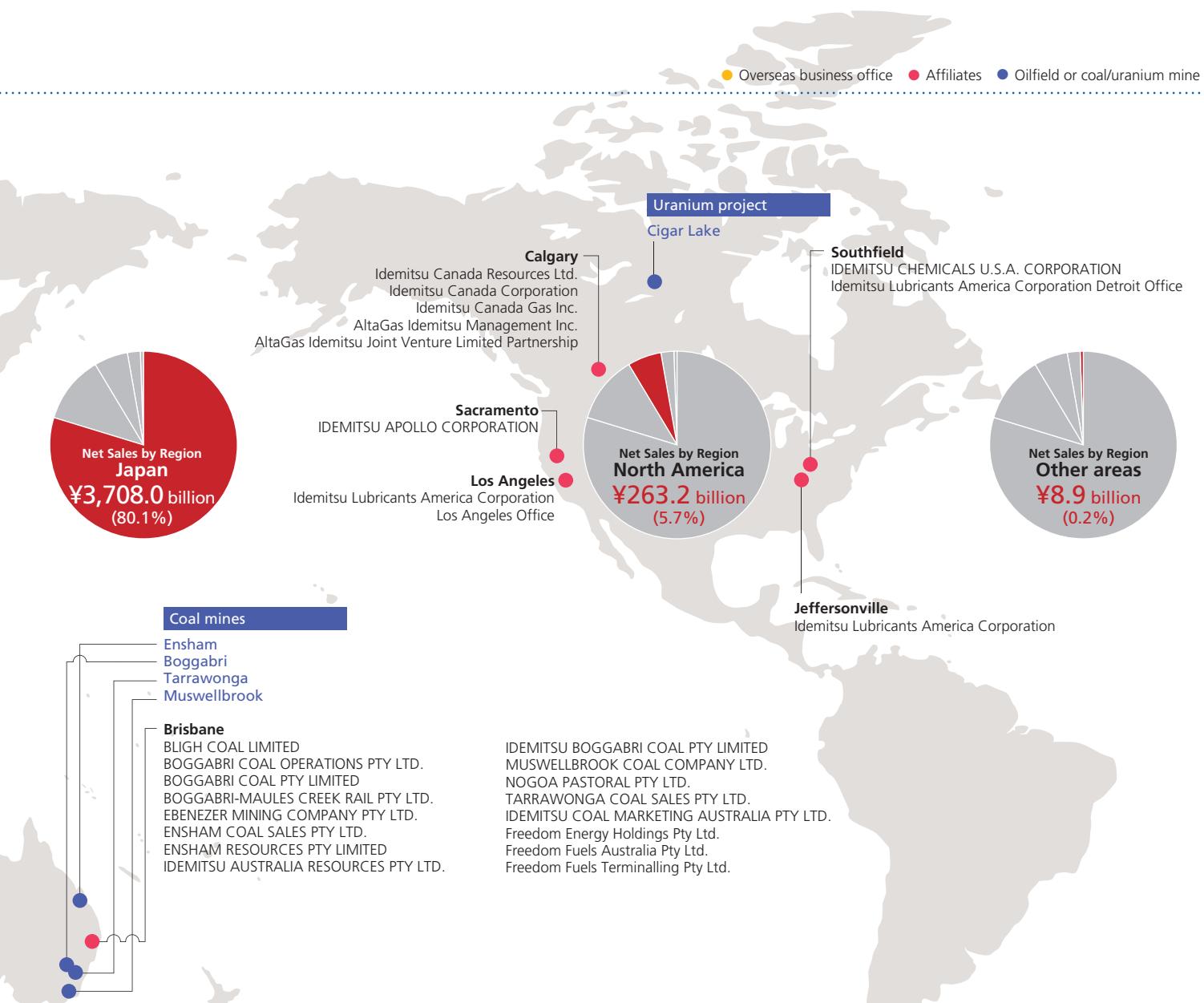
Idemitsu Unitech Co., Ltd.
Cray Valley Idemitsu Corporation

Idemitsu SM (Malaysia) Sdn. Bhd.
Idemitsu Chemicals (M) Sdn. Bhd.

IDEMITSU CHEMICALS EUROPE PLC
Idemitsu Chemicals Southeast Asia Pte. Ltd.
IDEMITSU CHEMICALS U.S.A. CORPORATION
IDEMITSU CHEMICALS (HONG KONG) CO., LIMITED
Petrochemicals (Malaysia) Sdn. Bhd.
Prime Evolve Singapore Pte. Ltd.
Prime Polymer Co., Ltd.*
PS Japan Corporation*
Formosa Idemitsu Petrochemical Corporation*
BASF Idemitsu Co., Ltd.*
LION IDEMITSU COMPOSITES CO., LTD.*
Chiba Chemicals Manufacturing LLP*

Coal Business (14 companies)

IDEMITSU AUSTRALIA RESOURCES PTY LTD.
IDEMITSU BOGGABRI COAL PTY LIMITED
BLIGH COAL LIMITED
BOGGABRI-MAULES CREEK RAIL PTY LTD.*
ENSHAM RESOURCES PTY LIMITED
ENSHAM COAL SALES PTY LTD.
NOGOA PASTORAL PTY LTD.
EBENEZER MINING COMPANY PTY LTD.
MUSWELLBROOK COAL COMPANY LTD.
BOGGABRI COAL PTY LIMITED
BOGGABRI COAL OPERATIONS PTY LTD.
TARRAWONGA COAL SALES PTY LTD.
IDEMITSU COAL MARKETING AUSTRALIA PTY LTD.
PT MITRABARA ADIPERDANA Tbk



Uranium and Geothermal Businesses (2 companies)

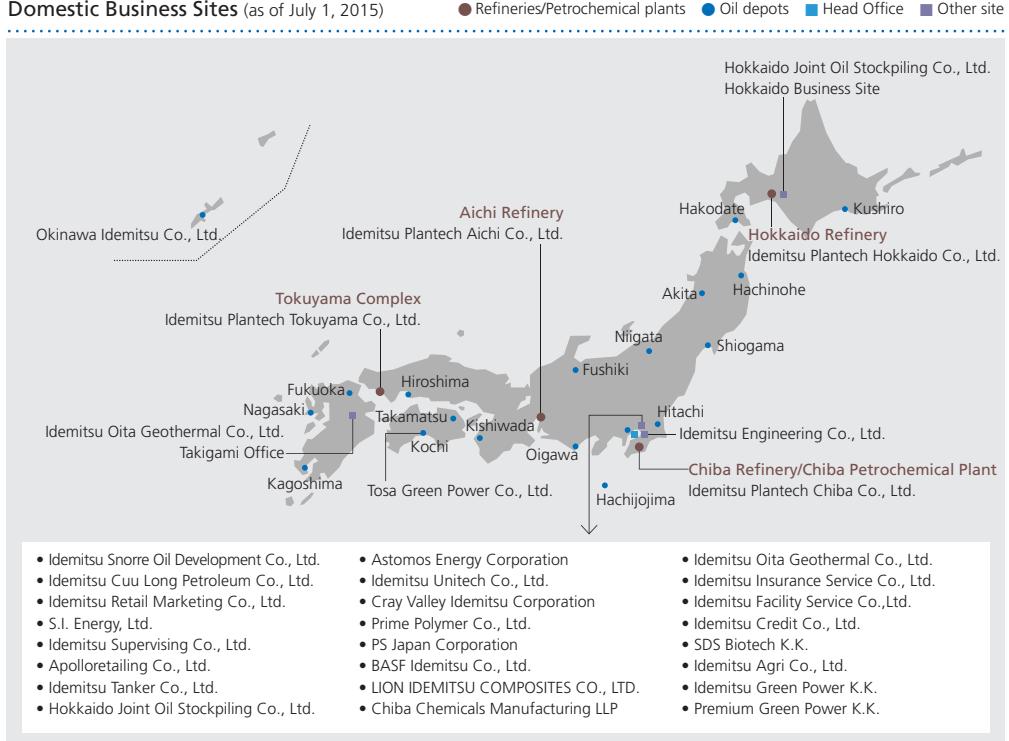
Idemitsu Canada Resources Ltd.
Idemitsu Oita Geothermal Co., Ltd.

Other Business (12 companies)

Idemitsu Engineering Co., Ltd.
Idemitsu Insurance Service Co., Ltd.
Idemitsu Facility Service Co., Ltd.
IDEMITSU SUNRISE INSURANCE COMPANY LIMITED
Idemitsu Credit Co., Ltd.*
SDS Biotech K.K.
Idemitsu Agri Co., Ltd.
Idemitsu Green Power K.K.
Premium Green Power K.K.
Tosa Green Power Co., Ltd.
SDS Ramcides CropScience Private Limited
Idemitsu Electronic Materials Korea Co., Ltd.

*Indicates equity-method affiliates

Domestic Business Sites (as of July 1, 2015)



About the Idemitsu Report

Editorial Policy

The IDEMITSU Report provides a comprehensive range of information on the Idemitsu Group, covering corporate social responsibility (CSR) and other nonfinancial topics as well as a business summary, management plans and summarized financial data, in order to help readers gain a broad understanding of the Group's activities. The report is offered both in print and online. The print version highlights the Group's energy-related businesses, forward-looking initiatives and corporate governance structure. The online version, which is available on our website, offers the latest Environment, Society and Governance (ESG) information, social contribution activities and details of each business's initiatives. We work hard to ensure that these two versions, when read in conjunction, provide a complete overview of our business. More detailed financial information is disclosed separately in the securities report, financial statements and annual report.

■ Reporting period

This report covers the Idemitsu Group's performance for the period from April 1, 2014 to March 31, 2015 (fiscal 2014) in addition to containing information concerning activities conducted before or after this period. In some cases, data regarding overseas Group companies may represent cumulative totals for the period from January 1 to December 31, 2014, and are so designated in the corresponding charts.

■ Scope of reporting

The scope of this report includes data and activities of Idemitsu Kosan Co.,Ltd. and 96 consolidated subsidiaries, including equity-method affiliates and overseas Group companies. Note that "the Company" and "Idemitsu" within this report refer to Idemitsu Kosan Co.,Ltd., while "the Group" and "the Idemitsu Group" refer to Idemitsu Kosan Co.,Ltd. and its consolidated subsidiaries.

■ Policy and standards for collecting and

reporting performance data

The scope of collection, methods of computation and calculation and finalization of data are conducted in accordance with the Management Policies, General Principles of Global Environment, General Principles of Safety and other relevant internal regulations. Where required, these processes are undertaken in compliance with applicable laws and regulations.

■ Regarding figures

Figures indicated in graphs and tables within this report are rounded off and therefore may not exactly match the totals shown.

■ Guideline references

Japan's Ministry of the Environment Environmental Reporting Guidelines (2012 version)

This report contains Standard Disclosures of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G4). On our website, you can find an index indicating the pages on which each disclosure item is located.

■ Publication schedule

Japanese version: Published annually since 2001

(Previous 2014 edition issued in October 2014)

English version: Published annually since 2003

(Previous 2014 edition issued in January 2015)

■ Performance data with independent practitioner's assurance

Some of the performance data in this report have undergone an independent practitioner's assurance by Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd. (Deloitte-TECO). The corresponding sections are indicated by a checkmark (✓).

The Independent Practitioner's Assurance Report is available on our website.

Indemnities:

This report contains past and current factual data of the Idemitsu Group as well as the plans and outlook as of the date of publication and forecasts based on its management plans and policies. These plans, outlook and forecasts are assumptions or decisions drawn up on the basis of information available at the time this report was produced. The results of the Idemitsu Group's future business activities and events may vary depending on changes in conditions and circumstances.

About the Painting on the Cover and the Artist



黃初平鞭羊為石画贊

鞭羊為石
鞭石為羊吾
執其鞭試
鞭二黃

This painting depicts Huang Chuping, a Chinese wizard during the Jin dynasty who allegedly gained the mystical power to easily turn sheep to stone, and his older brother, Huang Chuqi. In the text of the painting, however, the artist ponders what would happen if the mystical power were used on the brothers. It seems Sengai seeks unchanging universal truths even when contemplating mystical powers.

Sengai (1750–1837)

Born in Mino Province, Sengai was a monk of the Kogetsu line of the Rinzai sect of Zen Buddhism. He practiced in Seitai Temple in his hometown of Mino Province as well as in the Toki Hermitage in Musashi Province. Later in life, he moved to Hakata to become the 123rd chief priest of Shofuku Temple, the oldest Zen temple in Japan. There he restored the dilapidated Sangharama—main temple buildings—and trained disciples. After turning 61 and retiring to Kyohaku Temple, he focused on communicating his message to the general public through masterful Zen paintings. He was beloved by many for his humorous and entertaining Zen paintings as well as his lightheartedness and goodness. He is still fondly referred to as Sengai-san of Hakata.

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